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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

SCM CORPORATION,

Petitioner,

v.

XEROX CORPORATION.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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QUESTIONS PRESENTED

1. Are purchases of patents exempt from application of the antitrust laws, by reason of patent law policy, solely because they are made prior to the emergence of a relevant product market embodying the patented inventions—even where (i) hundreds of patents and patent applications are purchased; (ii) the purchaser is already licensed to practice the patented inventions; (iii) the purchases are not reasonably necessary to induce continued commercialization of the patented inventions by the purchaser; (iv) absent the purchases there would have been competition as a result of sublicenses granted by the patent owner; and (v) the foreseeable and actual result of the purchases is a persistent, substantial economic monopoly?

2. Are purchases of patents exempt, by reason of patent law policy, from the rule that the legality of an acquisition under the antitrust laws may be tested at the time its anticompetitive effects occur—even where the purchaser has excluded all competition by enforcing and refusing to license the purchased patents, thus maintaining a persistent, substantial economic monopoly?

Pursuant to Rule 28.1 of this Court, Petitioner SCM Corporation states that it has no parent or affiliates; its subsidiaries (other than wholly-owned subsidiaries) are: Allied/Egry Business Systems, Inc. (a subsidiary of Allied Paper Incorporated); and Pinturas Ecuatorias, S.A., Distribuidora Americana, C.A., Pinturas Centro-Americanas, S.A., Glidden de Honduras, S.A., Galvanizadora Centro-Americana, S.A., Compania Agricola Myristica, S.A. and Pinturas Centro-Americanas Costa Rica, Ltda. (all subsidiaries of SCM-Glidden International Co.).

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

No. ____

SCM CORPORATION,

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v.

XEROX CORPORATION.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

SCM Corporation respectfully prays for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit in this case, entered on March 12, 1981.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Second Circuit (Appendix A, PA 1a-40a) is not yet officially reported.[1] The opinion of the United States District Court for the District of Connecticut (Appendix B, PA 41a-126a) is reported at 463 F. Supp. 983.

[1] The citation "PA ____" refers to the appendix to this petition. The citations "A ____," "SA ____" and "E ____" refer to the Joint Appendix in the court below, a copy of which, together with the parties' briefs, has been lodged with the clerk of this Court.

JURISDICTION

The judgment of the court of appeals was entered on March 12, 1981. (PA 145a). This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).[2]

STATUTES INVOLVED

Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, and Sections 4 and 7 of the Clayton Act, 15 U.S.C. §§ 15, 18, are set forth in the appendix. (Appendix I, PA 149a-51a).

STATEMENT

This case involves the monopolization of a major industry and the exclusion of Petitioner SCM Corporation from the monopolized market. It is undisputed that, by 1969, Xerox Corporation had monopoly power in the convenience office copying market and the plain paper copying submarket. (PA 117a-18a). From 1960 to 1970, Xerox was the only company marketing plain paper copiers in the United States. (PA 4a). As late as 1975, Xerox's share of the plain paper copying market was 83.7 percent. (E 3797).

Xerox's monopoly was not based on internally developed technology. It was based on Xerox's purchase of hundreds of patents and patent applications from Battelle Memorial Institute, at a time when Xerox was already licensed to practice the patented inventions, when the purchases were unnecessary to induce Xerox to continue commercializing the inventions, and when the forseeable result of the purchases was that Xerox would obtain an economic monopoly. Had Xerox not purchased the patents, Battelle would have granted sublicenses, ensuring competition in plain paper copying. Instead, by enforcing and refusing to license the patents it had purchased, Xerox was able to maintain a persistent, substantial economic monopoly.

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[2] A petition for rehearing, relating to an SCM claim for damages that is not before this Court, was filed on March 25, 1981, and was denied on June 3, 1981. (PA 37a-40a, 147a-48a).

Statement of Facts

Xerography, the patented process on which plain paper copying is based, was invented by Chester Carlson in 1937. (PA 4a; A 734-36; E 2867). In 1944, Carlson assigned his patent rights (and later the patents themselves) to Battelle Memorial Institute, a non-profit research foundation.[3] By 1947, Battelle had developed the process to the point of commercial feasibility, generating numerous crucial secondary patents along the way. (PA 5a; A 792; E 211-18, 316-17, 1251, 1254, 1267, 1486). It was then that Xerox, at that time called The Haloid Company, became involved. Originally seeking a license that would be exclusive for a limited period of three to seven years following commercialization, in 1947 Xerox instead accepted the non-exclusive license offered by Battelle. (E 175, 182).

Battelle wanted to preclude a monopoly by Xerox of the xerographic process. (E 208). Accordingly, in 1948, while agreeing to allow Xerox's non-exclusive license to be made "exclusive," Battelle required Xerox to seek sublicensees, and Battelle retained the right to *compel* Xerox to sublicense. Xerox accepted the license under these conditions. Under this 1948 license agreement, Xerox was also required to assign to Battelle any xerographic patents Xerox might obtain. (PA 6a-7a, 31a-32a; A 3577-78, 3585, 3592-94; E 475-78, 496).

By the early 1950's, Battelle had made additional improvements in the xerographic process that enabled Xerox to market two xerographic products successfully—the "Copyflo," which xerographically printed plain paper copies from microfilm rolls, and the "Flat Plate Equipment," which xerographically prepared plain paper copies and masters for offset copying. By 1956, Xerox was deriving 40 percent of its profits from those two products. (PA 7a; A 891-93, 2541-43; E 316, 1281-83). The mechanical elements for a xerographic convenience office copier were available in 1953, and by 1954, Xerox and Battelle knew enough to build a commercially viable plain paper copier. (E 808-09, 1269; PA 7a).

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[3] Title to the patents was held by Battelle Development Corporation, a wholly-owned subsidiary of Battelle Memorial Institute.

By the mid-1950's, there was a substantial and growing business in *coated* paper convenience office copiers using processes other than xerography. (E 1677-78, 1771; PA 7a).[4] But the xerographic *plain* paper copying process developed by Battelle was vastly superior to any of the coated paper processes. As early as 1953, Xerox believed that "these xerography inventions [were] so basic and so numerous as to present a 'once in a lifetime' opportunity to grasp and maintain dominance of a vigorous and potentially great new industry." (E 2339-40, 2762). Plain paper copying offered such certain prospects for success that, by 1953, Xerox valued a *non*-exclusive xerographic patent sublicense at $70 million. (PA 7a).

Thus, by 1956, it was reasonably foreseeable that plain paper copying would develop into its own relevant product market; and Xerox realized that, if it could purchase the patents from Battelle and eliminate its sublicensing obligation, it would have a monopoly—of both the plain paper copying market and the broader convenience office copying market (*i.e.*, plain *and* coated paper office copiers). (PA 7a, 26a, 29a-30a).

That was the context in which Xerox sought and obtained a new agreement with Battelle—the "1956 Agreement"—that gave it the power to exclude all competition from plain paper copying. The 1956 Agreement (1) eliminated Xerox's obligation to sublicense and Battelle's power to compel sublicensing; (2) gave Xerox immediate title to the four original Carlson patents (the last of which was to expire in 1961); (3) gave Xerox an exclusive license through December 31, 1958 on each of the hundreds of other Battelle patents and patent applications relating to xerography; (4) gave Xerox the right to acquire title to those patents and patent applications in 1959; (5) extinguished Xerox's obligation to assign to Battelle any xerographic patents it might obtain; and (6) committed Battelle to assign all of its future xerographic patents and know-how to Xerox and to work exclusively for Xerox so long as Xerox

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[4] The new coated paper convenience office copiers that emerged in the 1950's included machines from Kodak, 3M and Apeco. (PA 7a-8a). By 1958, annual sales of coated paper copiers reached $175-200 million. (E 1677).

contributed $25,000 in xerographic research funds annually. (PA 8a-9a; E 334-42).

The 1956 Agreement effected a basic structural change in the industry: but for the agreement, Battelle would have compelled sublicensing of the xerographic patents and there would have been competition—instead of monopoly—in plain paper copying. (PA 8a, 31a, 123a; A 870-72, 4575-77; E 208).

In 1959, pursuant to the executory provisions of the 1956 Agreement, Xerox exercised its right to purchase the 318 existing Battelle patents and 327 patent applications. (PA 9a; A 942-44). In 1960, Xerox purchased from Horizons, Inc., a contract research firm, the only significant xerographic patents it did not already own. (A 2793-98; E 769-80). That same year, Xerox introduced the first plain paper copier, the 914.

Entry into plain paper copying by other companies was impossible. No one could invent around the patents Xerox had purchased. Many companies tried, including IBM, which alone spent $42.8 million in its unsuccessful attempt. (A 1400-02).

During the 1960's, a number of companies, although denied entry into plain paper copying, marketed coated paper copiers. By the mid-1960's, Petitioner SCM had become the leading company in the coated paper copying field. (E 1535, 1571, 2824-29).[5] Customers had a definite preference for plain paper copiers, however, because coated paper copies tended to smudge, crack, smear, fade and sweat; they emitted an odor, were heavy, difficult to write on, and had a slick feel. (E 1120, 1858-59, 1870). By the late 1960's, it became impossible to compete effectively with coated paper alone. (E 1558, 1870). In the 1970's, the coated paper copying business was marked by losses, failures and bankruptcies. (E 2673-74, 3792-94; A 2467-75).

Consumers also suffered from Xerox's monopolistic control of plain paper copying. Production was restricted and demand

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[5] Xerox had no interest in coated paper copying and licensed patents to other companies, including SCM, with a field of use restriction to coated paper use only. (A 1191).

left unsatisfied. Xerox conceded that, as late as 1969, the market opportunity for plain paper copiers greatly exceeded Xerox's machine population. (A 1302-03; *see also* E 1672; A 2395-430). Although it used only a small fraction of the technology it controlled (E 1176, 2678; A 1040), Xerox denied to others the opportunity to develop unused alternative approaches to plain paper copying, such as "TESI" and "xeroprinting," both of which were Battelle inventions purchased by Xerox (A 836-41, 2076-85; E 799-800). Innovative features, such as reduction capability and push-button control of paper length, were not available in Xerox's copiers until long after their introduction by coated paper firms. (E 3336-41, 1630-32, 1857, 1872, 2801; *see also* E 1590-658). Xerox's products were poorly designed and unreliable. (E 365-66, 387, 392-93, 1117, 1690-92; A 1540-41). As one of Xerox's top executives admitted, "[Xerox's] design skills were not the best," but "[b]ecause [Xerox] had this patent protection, any mistake went." (E 1273).

Because of Xerox's monopoly, if consumers wanted convenient plain paper copies, "they had to use a Xerox machine, even if their overall satisfaction with Xerox performance was marginal." (E 1117). Therefore, Xerox was able to charge exorbitant prices—as late as 1972 obtaining a 40-100 percent premium over coated paper companies even under its "discount" prices for large accounts. (E 1158; *see also* E 1060, 1239, 1924; A 1256, 1465-66). Xerox also was able to refuse to sell its plain paper copiers and then to set sales prices, when finally established, so high as to discourage sales almost entirely, thus preventing its customers from getting "off the hook" of Xerox's highly profitable rental plans, and precluding others from entering the market by dealing in Xerox copiers. (E 2770; *see also* E 81, 1087, 1101, 1709, 1933-34, 2975; A 1554-64, 2425-26). Xerox's high prices led to enormous profits. From 1960 to 1970, while Xerox was the only company marketing plain paper copiers in the United States (PA 4a), its annual gross profits increased from $6 million to $400 million. By 1975, Xerox's gross profits exceeded $800

million on $4 billion of revenue. (PA 10a). Between 1960 and 1975, Xerox's gross profits totalled more than $4.8 billion, at profit margins as high as 80 percent. (E 1231, 2665, 2770, 18-19; A 2173-77, 4203-05).

Xerox believed as early as 1964 that, eventually, the antitrust laws would require that it license the patents it had purchased. But Xerox decided to delay licensing as long as possible, "even up to the point . . . of playing the game of Brinksmanship in this connection." (A 1360-67; PA 67a). Thus Xerox consistently denied plain paper patent licenses to everyone. And when other companies, beginning with IBM in 1970, introduced infringing plain paper copiers, Xerox sued them for patent infringement. (PA 58a).

SCM spent millions of dollars trying to invent around the patents Xerox had purchased, but without success. (A 1515-17). And SCM requested a plain paper copying license from Xerox every year from 1963 through 1969 and beyond. Its requests were repeatedly refused. (PA 10a-11a; A 1374-79, 1650-52; E 2680). In 1974, SCM commenced marketing a plain paper copier. It was sued by Xerox for infringement. (A 2105-08).

Proceedings Below

SCM filed its complaint on July 31, 1973, seeking damages and equitable relief for antitrust violations. Jurisdiction was based on 15 U.S.C. § 15 and 28 U.S.C. § 1337. A preliminary injunction was denied, 1974 Trade Cas. ¶ 75,086 (D. Conn.), *aff'd*, 507 F.2d 358 (2d Cir. 1974), and, from June 1977 to August 1978, the case was tried to a jury—demanded by Xerox. SCM asserted five claims, only one of which, SCM's "1969 exclusion claim," is in issue here.[6]

On the 1969 exclusion claim, SCM sought to recover the damages it suffered by reason of Xerox's exclusion of SCM

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[6] Although the record in the trial court was lengthy, almost the entire record was devoted to issues not before this Court—such as market definition, market power, causation, damages and SCM's other claims.

from plain paper copying beginning in 1969. SCM contended that it was commercially feasible to manufacture a plain paper copier prior to the 1956 Agreement; that, absent the agreement, Xerox would have made and marketed plain paper copiers under its prior patent license from Battelle; that it was foreseeable that the agreement would allow Xerox to monopolize a major market; that Xerox in fact monopolized the convenience office copying and plain paper copying markets by, among other things, refusing to license the patents it had purchased; and that, had it not been for the 1956 Agreement, Battelle would have compelled sublicensing of the xerographic patents to SCM, among others, by 1969. SCM urged that, on these facts, Xerox had violated Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act.

The jury, responding to 52 interrogatories during its 38 days of deliberation, found for SCM on the 1969 exclusion claim. (PA 47a-49a, 112a-26a). The jury concluded that, by 1969, Xerox had monopoly power in both the convenience office copying market and plain paper copying submarket; that Xerox had wilfully acquired or maintained its monopoly power, as a result, among other things, of the 1956 Agreement, in violation of Section 2 of the Sherman Act; and that the 1956 Agreement was an unreasonable restraint of trade, in violation of Section 1 of the Sherman Act, and an anticompetitive acquisition, in violation of Section 7 of the Clayton Act, both in 1956, when the agreement was made, and in 1969. (PA 113a-15a, 121a-22a).[7] The jury found that Xerox had unlaw-

[7] The jury's finding of wilful acquisition or maintenance of monopoly power was not limited to the 1956 Agreement and Xerox's refusal to license the patents it had purchased (PA 14a n.7), but was based on a course of anticompetitive conduct that included: the subsequent purchase of important patents from Horizons, Inc., grant-backs of exclusive copier rights in its non-copier patent licenses, a conspiracy with its foreign affiliates (Rank Xerox and Fuji Xerox) to divide world markets, a lease-only policy that precluded development of competition in a secondary market for Xerox copiers, employee covenants not to compete that enabled Xerox to have control of 95 percent of the world's xerographers as late as 1972, and an unlawful pricing plan—MUP—that coerced some Xerox high volume machine customers into taking Xerox's low volume machines. The jury made specific findings that MUP violated Section 2 of the Sherman Act and Section 3 of the Clayton Act. (PA 37a, 86a-87a, 120a, 124a-25a; E 109).

fully excluded SCM from plain paper copying from 1969 to 1976, and awarded damages, before trebling, of $37.1 million. (PA 125a-26a).

The district court, without setting aside any of the jury's verdicts, directed entry of judgment in favor of Xerox on SCM's claim for damages. The court ruled that, even if Xerox's conduct violated the antitrust laws, the policies of the patent laws precluded the imposition of damage liability; the court did not decide whether SCM was entitled to equitable relief. (PA 109a-10a).

The court of appeals affirmed, holding that "the policies of the patent laws preclude the imposition of antitrust liability." (PA 30a, 32a). The court held that patent law policy requires that patent purchases be evaluated by focusing "upon the market power that will be conferred by the patent *in relation* to the market position then occupied by the acquiring party." (PA 28a). Thus, the fact that Xerox's patent purchases were made prior to the emergence of a relevant market embodying the patented inventions precluded antitrust liability, irrespective of the jury's finding that, in 1956, it was reasonably foreseeable that the result of the purchases would be the monopolization of a relevant market. (PA 28a-35a). The only basis advanced for the court's ruling was its policy determination that a contrary result would "trample upon the incentives provided by our patent laws" (PA 30a, 32a, 35a). The court also held that the policies of the patent laws preclude application of the rule (*e.g., United States* v. *E.I. duPont de Nemours & Co.*, 353 U.S. 586 (1957)) that the legality under the antitrust laws of an acquisition may be tested at the time its anticompetitive effects occur. (PA 32a-36a). Again, the sole justification for the ruling was that "[t]o hold otherwise would unduly trespass upon the policies that underlie the patent law system." (PA 36a). Having held that Xerox's patent purchases were not illegal, the court determined that Xerox's refusal to license SCM in 1969 could not be a basis for antitrust liability, even though "in an economic sense, [the license refusal] might have been unreasonable" (PA 25a, 30a, 32a). Judge Waterman concurred in the result.

REASONS FOR GRANTING THE WRIT

I. In Creating an Exemption From the Antitrust Laws by Reason of "the policies of the patent laws," the Court of Appeals Decided an Important Question of Federal Law That Should Be Resolved by This Court

This case deals with the principal evil at which the antitrust laws are aimed—persistent, substantial economic monopoly.[8] The court of appeals did not strive to maximize the policies underlying both the antitrust laws and the patent laws; instead, the court held that the patent laws oust the antitrust laws altogether. Under the decision below, the patent laws supersede the antitrust laws at the very point where antitrust policy is strongest—in prohibiting the wilful acquisition and maintenance of persistent monopoly power. The important questions raised by that determination should be reviewed by granting certiorari in this case.

The court of appeals did not dispute that, but for its view of the policies of the patent laws, there was an antitrust violation that caused antitrust injury to SCM. The court found in favor of Xerox, not on the basis that its conduct was, on balance, procompetitive—the test of legality under the antitrust laws (*see National Society of Professional Engineers* v. *United States*, 435 U.S. 679, 688-92 (1978))—but on the basis that the patent laws *preclude* the imposition of antitrust liability. (PA 30a, 32a, 36a). Xerox's conduct was, thus, exempted from antitrust scrutiny.[9]

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[8] *See, e.g., Standard Oil Co.* v. *United States*, 221 U.S. 1, 52 (1911); *American Tobacco Co.* v. *United States*, 328 U.S. 781, 813 (1946) (quoting *United States* v. *Aluminum Co. of America*, 148 F.2d 416, 427 (2d Cir. 1945)); *United States* v. *Griffith*, 334 U.S. 100, 107 (1948); *United States* v. *United Shoe Machinery Corp.*, 110 F. Supp. 295, 345 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954).

[9] The court of appeals, like the district court, did not disturb any of the jury's findings on the 1969 exclusion claim, including the finding that the anticompetitive effects of Xerox's conduct outweighed any claimed procompetitive effects. Consequently, in its present posture, this case does not turn on disputed facts, and this Court need not review any fact findings.

There is no express exemption from the antitrust laws for purchases of patents, as the court below recognized. (PA 22a).[10] Nevertheless, the court of appeals held that patent law policy shields from antitrust review all purchases of patents made prior to the emergence of a separate, definable relevant market embodying the patented invention. Under the court's decision, every such purchase is per se lawful, not only at the time the purchase is made, but forever. Accordingly, if the market has not yet emerged at the time of the purchase, the purchaser may forever refuse to license the patents and use them to exclude competition—even after wilfully attaining monopoly power.

The court of appeals' decision casts aside important doctrines of antitrust law. Were it not for "the policies of the patent laws," the antitrust laws would require that the jury's determination that the 1956 Agreement was unlawful when made be sustained; for it has long been established that "[t]he anti-trust laws are as much violated by the prevention of competition as by its destruction." *United States* v. *Griffith*, 334 U.S. 100, 107 (1948); *United States* v. *Aluminum Co. of America*, 148 F.2d 416, 431 (2d Cir. 1945). (See pp. 19-20, *infra*). Were it not for "the policies of the patent laws," the antitrust laws would require that the jury's determination that the 1956 Agreement was unlawful in 1969 also be sustained; for it has long been established that antitrust scrutiny of an acquisition is not limited to the time the acquisition is made. An acquisition lawful at its inception may violate the antitrust laws thereafter if it develops a demonstrably adverse effect on competition. *E.g.*, *United States* v. *E.I. duPont de Nemours & Co.*, 353 U.S. 586 (1957); *United States* v. *Southern Pacific Co.*, 259 U.S. 214 (1922). (See pp. 22-25, *infra*).

As the district court observed, "[t]his case presents important issues concerning the relationship between the patent laws

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[10] *See Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952); *United States* v. *Besser Mfg. Co.*, 96 F. Supp. 304 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952).

and the antitrust laws." (PA 41a).[11] And the creation of an exemption from the antitrust laws is the kind of important question for which this Court has frequently granted review—particularly where, as here, an exemption has been implied without any demonstration of a plain repugnancy between the two statutory schemes.[12] (See pp. 13-18, *infra*).

Review is especially appropriate and timely in this case, for the court of appeals' exemption clears the way for long-term monopolies in new technologies and products. In high technology industries, purchases of a number of patents may, as here, exclude competitors from the relevant market for many years beyond the 17 granted for the first patented invention. The purchaser may obtain an overwhelming technological advantage over would-be entrants into the industry; and, if the antitrust laws cannot apply, that advantage can be extended into a monopoly of indefinite duration. *See Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 646-47 (1947).

In this case, for example, Carlson invented xerography in 1937 and his first patent was issued in 1940. Yet, by purchasing hundreds of patents and patent applications pursuant to the 1956 Agreement, Xerox was able to exclude SCM from plain paper copying in 1969, *twenty-nine years* after the first patent issued. Companies such as SCM and IBM spent fortunes in unsuccessful efforts to invent around the patents Xerox had

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[11] The importance of the antitrust-patent relationship itself is reflected by this Court's grants of certiorari in cases where the two laws have been perceived to conflict. *See, e.g., Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942); *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637 (1947); *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965); *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176 (1980).

[12] *E.g., National Gerimedical Hospital & Gerontology Center* v. *Blue Cross of Kansas City*, No. 80-802 (argued April 29, 1981); *California Retail Liquor Dealers Ass'n* v. *Midcal Aluminum, Inc.*, 445 U.S. 97 (1980); *Group Life & Health Ins. Co.* v. *Royal Drug Co.*, 440 U.S. 205 (1979); *National Broiler Marketing Ass'n* v. *United States*, 436 U.S. 816 (1978).

purchased. No one ever succeeded in circumventing Xerox's "solid wall of patent protection." (E 1553). If it were not for *the antitrust laws,* there would be no other companies marketing plain paper copiers even today.[13]

By forever foreclosing application of the antitrust laws to patent purchases made prior to the emergence of a relevant market, the decision below fosters the needless elimination of competition in the development of new markets. The consequences of the court of appeals' decision will become increasingly important as scientific breakthroughs occur in such areas as genetic engineering, laser technology and electronics, to name but a few examples, where important new markets and submarkets will be created. *Cf. Diamond* v. *Chakrabarty,* 447 U.S. 303 (1980). Whether the policies underlying the patent laws require an exemption from the antitrust laws for purchases of patent-based monopolies in developing new industries, solely because a market may not have emerged when the purchases are made, is an important question that should be addressed by this Court.

II. The Exemption Created by the Court of Appeals Is Unwarranted and Conflicts With Applicable Decisions of this Court

A. The court of appeals' decision conflicts with applicable decisions of this Court governing implied exemptions

The decision of the court of appeals conflicts with this Court's decisions governing implied exemptions from the antitrust laws. This Court has never ruled that patents confer

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[13] The Federal Trade Commission filed a complaint in 1973 charging Xerox with monopolization. In 1975, Xerox agreed to a consent order requiring it to license all its patents in return for nominal royalties. (PA 12a). If it had not been for the FTC decree, Xerox would still have a complete monopoly today, forty-one years after the first patent issued.

One of the important patents Xerox purchased from Battelle pursuant to the 1956 Agreement was a 1970 patent that will not expire until 1987; this patent was infringed by copiers introduced by Dennison and IBM. (A 2098; E 2301; SA 199b-c). Another "crucial" purchased patent, which several machines infringed, was a 1961 patent that did not expire until 1978. (A 2094; E 2291, 2980-84; SA 199b-c).

immunity from the antitrust laws. To the contrary, as the Court unanimously held in *Standard Sanitary Mfg. Co.* v. *United States,* 226 U.S. 20, 49 (1912):

> "Rights conferred by patents are indeed very definite and extensive, but they do not give any more than other rights an universal license against positive prohibitions. The Sherman law is a limitation of rights, rights which may be pushed to evil consequences and therefore restrained."[14]

Because our national policy in favor of competition is so fundamental,[15] this Court's decisions "have repeatedly established that there is a heavy presumption against implicit exemptions [from the antitrust laws], *United States* v. *Philadelphia National Bank,* 374 U.S. 321, 350-351 (1963); *California* v. *FPC,* 369 U.S. 482, 485 (1962)." *Goldfarb* v. *Virginia State Bar,* 421 U.S. 773, 787 (1975). No exemption will be recognized unless there is a "plain repugnancy" between the antitrust laws and the competing statutory system such that no reconciliation is possible. *FMC* v. *Seatrain Lines, Inc.,* 411 U.S. 726, 733 (1973); *United States* v. *Philadelphia National Bank,* 374 U.S. at 350-52; *United States* v. *Borden Co.,* 308 U.S. 188, 198-200 (1939). Thus, an exemption will be "implied only if necessary to make [the competing statute] work, and

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[14] *Accord, United States* v. *Masonite Corp.,* 316 U.S. 265, 280 (1942) ("[s]ince patents are privileges restrictive of a free economy, the rights which Congress has attached to them must be strictly construed so as not to derogate from the general law beyond the necessary requirements of the patent statute"); *see Deepsouth Packing Co.* v. *Laitram Corp.,* 406 U.S. 518, 529-31 (1972); *United States* v. *Singer Mfg. Co.,* 374 U.S. 174, 197 (1963); *United States* v. *Line Material Co.,* 333 U.S. 287, 310-11 (1948); *B.B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 498 (1942).

[15] The antitrust laws "are the Magna Carta of free enterprise. They are as important to the preservation of economic freedom and our free-enterprise system as the Bill of Rights is to the protection of our fundamental personal freedoms." *California Retail Liquor Dealers Ass'n* v. *Midcal Aluminum, Inc.,* 445 U.S. 97, 110 (1980) (quoting *United States* v. *Topco Associates,* 405 U.S. 596, 610 (1972)). In enacting the antitrust laws, Congress "sought to establish a regime of competition as the fundamental principle governing commerce in this country." *City of Lafayette* v. *Louisiana Power & Light Co.,* 435 U.S. 389, 398 (1978).

even then only to the minimum extent necessary." *Silver* v. *New York Stock Exchange*, 373 U.S. 341, 357 (1963).[16]

This Court's decisions require more than *ipse dixit* to demonstrate the existence of a plain repugnancy. Yet the court of appeals relied on no empirical data to support its view that application of the antitrust laws "would severely trample upon the incentives provided by our patent laws" (PA 23a, 30a), and the available empirical data—including the findings in this case—refute the necessity for an exemption. *See* F.M. SCHERER, THE ECONOMIC EFFECTS OF COMPULSORY PATENT LICENSING 34, 84-88 (NYU Bus. Admin. Monograph) (1977); Stedman, *The Patent-Antitrust Interface*, 58 J. PAT. OFF. SOC'Y 316, 323-24 (1976). Nor did the court of appeals rely on any of this Court's opinions. The decision was based only on the panel's own unsubstantiated conclusions.

The exemption created by the court below is especially dangerous because it allows private parties to engage in anticompetitive conduct unsupervised either by a regulatory agency or by the constraint of the antitrust laws. *E.g.*, *Otter Tail Power Co.* v. *United States*, 410 U.S. 366, 374 (1973). Where implied antitrust exemptions are recognized, it is almost invariably in the context of an overriding regulatory scheme with the supervision of a federal or state agency. In the patent context, the antitrust laws are the only check on anticompetitive activities and they must be applied vigilantly to prevent the patent owner's conduct from exceeding the limits reasonably necessary to effectuate the purposes of the patent laws.

B. The creation of an implied exemption is unnecessary to further the policies of the patent laws

There is no "plain repugnancy" between the antitrust laws and the patent laws to support the exemption created by the court of appeals. The Constitution gives Congress the power to

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[16] *See, e.g., Group Life & Health Ins. Co.* v. *Royal Drug Co.*, 440 U.S. 205, 231-33 (1979); *Connell Construction Co.* v. *Plumbers Local 100*, 421 U.S. 616, 625 (1975); *Otter Tail Power Co.* v. *United States*, 410 U.S. 366, 372-75 (1973); *Carnation Co.* v. *Pacific Westbound Conference*, 383 U.S. 213, 218 (1966).

"secur[e] for limited times to . . . inventors the exclusive right to their . . . inventions" in order to "promote the progress of science and useful arts" (Art. I, § 8, cl. 8). Thus, the primary policy underlying the patent laws is that of stimulating invention. *See Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 221 (1980). But the limited grant of exclusivity given by the patent laws to the inventor to encourage innovation, 35 U.S.C. § 154, need not conflict with the procompetition mandate of the antitrust laws; for innovation is a goal furthered not just by the patent laws, but by the antitrust laws as well.

As Learned Hand said in *United States* v. *Aluminum Co. of America*, 148 F.2d 416, 427 (2d Cir. 1945), it is a major premise of the antitrust laws that "rivalry is a stimulant to industrial progress; that the spur of constant stress is necessary to counteract an inevitable disposition to let well enough alone." The Department of Justice takes the same position in its recent ANTITRUST GUIDE CONCERNING RESEARCH JOINT VENTURES 2-3 (1980):

> "Competition is both a cause and an effect of new and improved products and services and more efficient productive processes. Competition acts as a spur to encourage investment in research, for the firm that fails to make such investments risks losing business to rivals who introduce better or cheaper products. Furthermore, the more competitive the industry, the greater the incentive to innovate is likely to be. At the same time, investment in research acts to increase competition, for the successful innovator gains a competitive advantage over its rivals, who must then imitate the innovation or develop innovations of their own if they are to keep up in the competitive race. Antitrust policy strives, therefore, to keep markets competitive in order to promote innovation, and to encourage innovation in order to promote competition."

The court of appeals' implied exemption is entirely unnecessary to further the purposes of the patent laws because the policies the patent laws seek to promote are given full expres-

sion under the antitrust Rule of Reason. *See Silver* v. *New York Stock Exchange*, 373 U.S. at 360-61; *United States* v. *Borden Co.*, 308 U.S. at 198. SCM did not contend below that all purchases of dominant patents were illegal; it simply urged—as the district court had instructed the jury (A 4513-19, 4527-33; *see also* A 4422-28, 4461-63, 4549-50)—that such purchases, including purchases of patents prior to the emergence of a relevant market, were subject to the Rule of Reason. (*E.g.*, SCM's Reply Brief at 27, quoted by the court of appeals (PA 28a)).

As this Court held in *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 400-01 (1948): "We apply the 'rule of reason' of *Standard Oil Co.* v. *United States*, 221 U.S. 1, to efforts to monopolize through patents as well as in non-patent fields." Under the Rule of Reason, when an agreement to purchase patents eliminates an existing potential for competition in a reasonably foreseeable economic market, the agreement can be found unreasonable where, as here, it restrains competition to a degree greater than reasonably necessary to induce the purchaser to develop and market the product involved. So applied, the Rule of Reason gives full effect to the policies of the patent laws, for it allows purchasers of patents whatever exclusivity is reasonably necessary to induce commercial development. And it also achieves the purposes of the antitrust laws by preventing those restraints on competition that are not reasonably necessary to achieve the purposes of the patent laws. *Cf. Broadcast Music, Inc.* v. *Columbia Broadcasting System, Inc.*, 441 U.S. 1, 19 (1979).[17]

The reasonableness of trade restraints has been determined from the beginning by the standard of reasonable necessity.

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[17] Contrary to the court of appeals' assertion (PA 29a), the legality of patent purchases does not turn, under the Rule of Reason, on the patents' potential for commercial success; it turns on the degree competition is restrained in relation to the reasonable need to restrain competition. Nor does the Rule of Reason condemn purchase agreements that have no substantial impact on competition. The question in every case is whether there is a substantial effect on competition, and, if there is, whether the restraint on competition is reasonably necessary.

United States v. *Addyston Pipe & Steel Co.*, 85 F. 271, 281-82 (6th Cir. 1898), *aff'd as modified*, 175 U.S. 211 (1899).[18] And the enforcement authorities and the courts have repeatedly applied the Rule of Reason in determining the legality of patent-based trade restraints. *See Mannington Mills, Inc.* v. *Congoleum Industries, Inc.*, 610 F.2d 1059, 1070-71 (3d Cir. 1979); *Moraine Products* v. *ICI America, Inc.*, 538 F.2d 134, 145 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976); DEPARTMENT OF JUSTICE, ANTITRUST GUIDE CONCERNING RESEARCH JOINT VENTURES App. B, at 6-7 (1980).[19] Whether the patent laws are so plainly repugnant to the antitrust laws as to warrant the exemption created by the court of appeals is an important question of federal law which this Court should resolve.

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[18] *Cf.* 35 U.S.C. § 209(c), 42 U.S.C. § 5908 and 42 U.S.C. § 7608, which apply a Rule of Reason standard to the Government in the licensing of federally-owned patents. Under 35 U.S.C. § 209(c), for example, a federal agency may grant exclusive or partially exclusive licenses on federally-owned inventions only if: (i) commercial application has not been achieved; (ii) "exclusive or partially exclusive licensing is a reasonable and necessary incentive to call forth the investment of risk capital and expenditures to bring the invention to practical application"; and (iii) "the proposed terms and scope of exclusivity are not greater than reasonably necessary to provide the incentive . . . ."

[19] As noted in the ANTITRUST GUIDE CONCERNING RESEARCH JOINT VENTURES, in 1975, the Salk Institute for Biological Studies (a non-profit research foundation) sought a business review letter regarding a proposed licensing program for its patents and patent applications on the drug somatostatin. Salk lacked the capability of performing clinical testing for the drug, and therefore approached several pharmaceutical companies, offering them non-exclusive licenses for testing and commercial development. The pharmaceutical companies only wanted exclusive licenses and no one accepted the offer. Salk then asked the Antitrust Division to approve a proposal under which it would grant non-exclusive licenses, but grant no more than five worldwide licenses. This limitation on worldwide licenses would expire three years after the first commercial sale of somatostatin in the United States. *Even though the drug had not been marketed*, the Division at first refused to grant a favorable review because of the anticompetitive potential of the licensee limitation. However, after learning of Salk's unsuccessful efforts to license non-exclusively, the Division granted a favorable review because the licensee limitation was reasonably necessary to induce investment by the firms in testing and developing the drug and because the arrangement limited the power of those firms to control licensing of the drug to a reasonably brief period.

C. There is no basis for a distinction between patent purchases made prior to and those made subsequent to the emergence of a relevant market embodying the patented invention; and the distinction disregards the impact on potential competition

The court of appeals acknowledged that the antitrust laws "surely" apply to patent purchases made subsequent to the emergence of a market. (PA 22a-23a). But because the convenience office copying business had not yet become a separate "market" by 1956, the court of appeals determined that the 1956 Agreement—pursuant to which Xerox purchased hundreds of patents and patent applications, bought up Battelle's know-how and eliminated Battelle's ability to compel sublicensing—was per se lawful under Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act when the purchase was made.

There is no justification in antitrust policy for the court of appeals' determination. The court's conclusion that the 1956 Agreement was not illegal disregards the potential competition that the agreement eliminated.[20] No court has ever suggested as a matter of antitrust policy that the elimination of potential competition can be ignored because the precise market in which the effect on competition is measured does not emerge until a later date.

The importance of ascertaining a relevant market in an antitrust case is simply to aid in determining the effect on competition of the agreement at issue. Where the agreement's prospective effect on competition is reasonably foreseeable, and especially where that effect actually occurs, the existence of a precisely defined market at the time of the agreement is

[20] The court below noted that Xerox purchased the patents from an entity that was not a potential competitor. However, it was established below that, but for the 1956 Agreement, Battelle would have exercised its power to compel sublicenses in favor of SCM, among others, by 1969. (PA 123a; A 4575-77). Thus, although Battelle itself was not a potential manufacturing competitor, it clearly was a source of potential competition. The 1956 Agreement eliminated that potential competition; and, as a result, the 1969 market was monopolized.

unnecessary; it is enough to know that the agreement's effect on competition will be substantially adverse.

SCM's injury was suffered, not in 1956, but in 1969, when Xerox acted to maintain its monopoly power by refusing to license the patents it had purchased from Battelle. To focus solely on 1956 is to ignore the impact of the 1956 Agreement on competition. As a matter of antitrust law, the pertinent inquiry is not what the effect of an agreement is at an isolated point in time, but what the effect of the agreement is "on competitive conditions" in the "long-run." *National Society of Professional Engineers* v. *United States,* 435 U.S. 679, 688-89 (1978). That inquiry cannot ignore the effect of the agreement on reasonably foreseeable competition, particularly when the agreement results in the creation and maintenance of persistent, substantial monopoly power.[21]

The court of appeals found no basis in antitrust policy for conclusively presuming the legality of patent purchases prior to the emergence of a market; the court's rule of per se legality was bottomed only on "the policies of the patent laws." The sole rationale advanced by the court of appeals for its distinction between patent purchases made prior to the emergence of a market and patent purchases made thereafter was that "to impose antitrust liability upon Xerox would severely trample upon the incentives provided by our patent laws" (PA 30a). But the same reasoning would equally justify an exemption for all patent purchases, no matter when they are made. Subjecting to antitrust scrutiny patent purchases that occur *after* the emergence of a relevant market may also diminish economic incentives.[22]

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[21] By focusing solely on market conditions at the time patents are purchased, the court of appeals would allow a company with a patent on a cure for cancer, for example, to buy the only significant competing patent as long as neither product had yet been marketed. The result would be no additional innovation, and the monopolization of an important new market as soon as the drugs are sold.

[22] The court of appeals rationale proves too much. Virtually every patent license restriction could be exempted from antitrust scrutiny on the court's analysis. Even tying arrangements and closed patent pools could be ap-

The court of appeals assumed that, in order to encourage research investment, it is necessary to conclusively presume the legality of all purchases of patents prior to the emergence of a relevant market. The facts of this case demonstrate that the court's assumption is incorrect. Xerox, which already had a license to practice the Battelle inventions, and which viewed plain paper copying's future as so clearly profitable that it valued a *non*-exclusive license at $70 million, would have produced a commercial copier with or without the monopoly power acquired as a result of the 1956 Agreement. The 1956 Agreement had nothing to do with investment incentives. As noted in Xerox's summation, the "1956 agreement did nothing to alter the course of Xerox's continuing R & D efforts." (A 4313).

The court of appeals found no reason to distinguish between the economic monopoly obtained through purchases of patents prior to the emergence of a market and that achieved by an inventor. (PA 23a & n.9). But one of the basic themes underlying the antitrust laws is that "corporate growth by internal expansion is socially preferable to growth by acquisition." *United States* v. *Philadelphia National Bank*, 374 U.S. 321, 370 (1963). And the distinction between "growth . . . as a consequence of a superior product," *United States* v. *Grinnell Corp.*, 384 U.S. 563, 570-71 (1966), and growth by *acquisition* lies at the very foundation of antitrust policy. *See* 1 R. NORDHAUS, PATENT-ANTITRUST LAW § 10 (1980).[23] Whether

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proved; for those unlawful activities also tend to increase patentee income and the prohibition of those practices, therefore, arguably—but no more demonstrably than here—also diminishes the incentives provided by the patent laws. *Cf. B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 498 (1942). The breadth of the court of appeals' rationale is perhaps best illustrated by the court's expression of uncertainty as to whether damage liability can be imposed for refusing to license illegally pooled patents (PA 25a n.10)—in sharp contrast with this Court's holding in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

[23] Xerox did not invent plain paper copying. The xerographic process was invented by Carlson and brought to commercial feasibility by Battelle. In determining that Xerox's monopoly power was acquired unlawfully, the jury properly rejected Xerox's contention that its monopoly was achieved by Xerox's superior skill. (A 4469-71; SA 831).

that distinction can be erased in the patent context is an issue deserving review by this Court.

III. The Decision of the Court of Appeals Conflicts With Applicable Decisions of This Court Holding That the Legality of an Acquisition Under the Antitrust Laws May Be Determined at the Time Its Anticompetitive Effects Occur

Absent an implied exemption based on the patent laws, even if the 1956 Agreement had been lawful when it was made, it clearly became unlawful by 1969, by which time Xerox had obtained an economic monopoly. Applying the antitrust laws, the agreement was illegal in 1969 under the established rule that the legality of an acquisition may be tested, not only at the time it is made, but also at any later time when the anticompetitive consequences of the acquisition have become demonstrable. Expressing evident dissatisfaction with this rule regardless of its context (PA 36a), the court of appeals held that it could never be applied to patent purchases. The court's brief discussion of the issue cited nothing in support of its conclusion. (PA 33a, 36a).

The applicability of the rule that an acquisition may be found unlawful when its anticompetitive consequences occur is clearly established under Section 7 of the Clayton Act under this Court's decision in *United States* v. *E.I. duPont de Nemours & Co.*, 353 U.S. 586, 592, 597, 607 (1957). The *duPont* rule was reaffirmed in *United States* v. *Penn-Olin Chemical Co.*, 378 U.S. 158, 168 (1964), and *United States* v. *ITT Continental Baking Co.*, 420 U.S. 223, 240-43 (1975).[24]

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[24] Congress is aware of the *duPont* rule, and has implicitly endorsed it. Just last year, Section 7 was expanded to reach acquisitions by and from individuals and unincorporated firms as well as corporations. Pub. L. No. 96-349, § 6(a), 94 Stat. 1157-58 (1980). The point was raised in opposition to the bill that, under *duPont*, "section 7 can be utilized to reach far back into history . . . ." *Hearings on S. 390 before the Subcomm. on Antitrust and Monopoly of the Senate Comm. on the Judiciary*, 96th Cong., 1st Sess. 69-70 (1979). Congress nonetheless passed the bill and extended the reach of Section 7.

The same rule is applicable when acquisitions are challenged under Sections 1 and 2 of the Sherman Act. In *United States* v. *Southern Pacific Co.*, 259 U.S. 214, 232-33 (1922), for example, this Court sustained the Government's 1914 challenge to an 1899 stock acquisition over the defense that the acquiring company had had effective control over the acquired company since 1870. And in *Appalachian Coals, Inc.* v. *United States*, 288 U.S. 344, 378 (1933), this Court ruled that, although the agreement in issue was not unreasonable at the time it was made,

> "[i]f in actual operation it should prove to be an undue restraint upon interstate commerce, if it should appear that the plan is used to the impairment of fair competitive opportunities, the decision upon the present record should not preclude the Government from seeking the [appropriate] remedy [at such future time]."[25]

Even if there were any basis for the court of appeals' conclusion that application of the Clayton Act's incipiency standard under the *duPont* rule would "unduly trespass upon the policies" of the patent laws (PA 36a), application of the doctrine under the *Sherman Act* is eminently sound, especially where, as here, the defendant has obtained an actual monopoly and is wilfully maintaining it. Only those patent purchases that unreasonably restrain trade or create a monopoly are condemned by Sections 1 and 2 of the Sherman Act. And there is no empirical support for the proposition that companies will be deterred from purchasing patents by the prospect that they might obtain an economic monopoly that could be challenged in the future under the Sherman Act's rigorous standard of proof.[26]

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[25] *See United States* v. *Jerrold Electronics Corp.*, 187 F. Supp. 545, 555-61 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961); *United States* v. *Citizens & Southern Nat'l Bank*, 422 U.S. 86, 143 (1975) (Brennan, J., dissenting on other grounds); *United States* v. *E.I. duPont de Nemours & Co.*, 353 U.S. at 622 n.14 (Burton, J., dissenting on other grounds).

[26] As the Third Circuit has pointed out, "there is a consensus among those who have considered the question that . . . any incremental increase in

The court of appeals acknowledged that, "in an economic sense, it might have been unreasonable" for Xerox to refuse to license SCM in 1969, but the court held that the policies of the patent laws nevertheless rendered the refusal to license lawful. (PA 32a). Yet Xerox never offered any justification for its 1969 license refusal; and the court did not specify how patent law policies would be threatened by holding that Xerox violated the antitrust laws in 1969 when it unreasonably maintained its monopoly power by refusing to license SCM. Holding that Xerox acted unlawfully in 1969 by refusing to license other companies to compete with plain paper copiers—in return for profitable royalties—would have no adverse impact on any incentives to invest in innovation.[27] Rather than detrimentally affecting the patent laws, imposition of liability on Xerox for its 1969 license refusal would only reaffirm our national commitment to competition.[28]

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patentee income that might result from permitting licensing schemes that would otherwise violate the antitrust laws would be unlikely to affect a patentee's initial decision to invest in innovative activity." *Mannington Mills, Inc.* v. *Congoleum Industries, Inc.*, 610 F.2d at 1071 (citing authorities).

[27] If Sherman Act liability is imposed in this case, it will only be well after the time that Xerox's investment in xerographic research and development has been recouped many times over. Xerox invested less than $10 million in xerographic research and development in the 13 years prior to commencing the marketing of plain paper copiers in 1960; but by 1969, when the jury found that Xerox had unreasonably excluded SCM, Xerox had already made $778 million in profits as a result of the patents it had bought from Battelle. (A 2114-16; E 2665, 3754). Accordingly, Xerox's 1969 refusal to license SCM, unlike the license refusal in *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 222-23 (1980), and unlike the refusal to predisclose in *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, 603 F.2d 263 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980), cannot be justified by any need to encourage innovation; and Xerox has not contended otherwise.

[28] *See Otter Tail Power Co.* v. *United States*, 410 U.S. 366 (1973); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 114-25 (1969); *Hanover Shoe, Inc.* v. *United Shoe Machinery Corp.*, 392 U.S. 481 (1968); *Lorain Journal Co.* v. *United States*, 342 U.S. 143 (1951); *Eastman Kodak Co.* v. *Southern Photo Materials Co.*, 273 U.S. 359 (1927); *United States* v. *Terminal Railroad Ass'n*, 224 U.S. 383 (1912); *Hecht* v. *Pro-Football, Inc.*, 570 F.2d 982, 992-93 & n.44 (D.C. Cir. 1977), *cert. denied*, 436 U.S. 956 (1978).

In refusing to apply *duPont* to patent purchases, the court of appeals said that, "[w]here a company has acquired patents lawfully, it must be entitled to hold them free from the threat of antitrust liability for the seventeen years that the patent laws provide." (PA 36a). The court's suggestion that the 17-year period can never be limited by the antitrust laws is demonstrably wrong. To take an obvious example, the 17-year protection is lost when patents are illegally pooled. In such circumstances even a good faith infringement suit on a valid patent may not be maintained; it is an unlawful act of monopolization for which treble damages may be recovered. *E.g., Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 114-25 (1969); *Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952). The 17-year period is simply the *maximum* beyond which there is never any protection.

The policy underlying the *duPont* doctrine is sound. The anticompetitive effects of an acquisition may not become demonstrable until well after the acquisition has been consummated. Yet the impact on competition of an acquisition is not made any less pernicious because the acquisition is old—a fact no less true when the assets purchased are hundreds of patents and patent applications.

The only basis even hinted at below for not applying *duPont* to patent purchases is the assumption that the patent laws themselves will effectively limit to 17 years the duration of the restraint on competition caused by such purchases. (PA 36a). But that assumption is disproved by the facts of this very case. The 1956 Agreement enabled Xerox to purchase an insurmountable patent position in plain paper copying, which, as Xerox commented in 1962, would extend into "the indefinite future." (E 172). In 1969, when Xerox refused to license SCM, it had a complete economic monopoly—*twenty-nine years* after the first patent issued. The court of appeals' decision allows monopolies of indefinite duration to be established and maintained. Whether the policies of the patent laws mandate such a result is a question this Court should address.

CONCLUSION

For the reasons stated, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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June 10, 1981

Appendix A

Opinion of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 14—September Term, 1980

(Argued September 17, 1980 Decided March 12, 1981)

Docket No. 79-7017

SCM CORPORATION,

Plaintiff-Appellant,

—v.—

XEROX CORPORATION,

Defendant-Appellee.

Before:

WATERMAN, FRIENDLY and MESKILL,
Circuit Judges.

Appeal from an order and judgment of the United States District Court for the District of Connecticut, Newman, *J.*, dismissing the claims for monetary damages asserted by the plaintiff in its private antitrust action brought under the Clayton and Sherman Acts.

Affirmed and remanded.

GORDON B. SPIVACK, New York, New York (David H. Marks, Jonathan M. Jacobson, Stephen R. Lynch, Lord, Day & Lord, New York, New York; Ira B. Grudberg, David L. Belt, Jacobs, Jacobs & Grudberg, P.C., New Haven, Connecticut; Jerome Gotkin, W. Thomas Fagan, Widett, Slater & Goldman, P.C., Boston, Massachusetts; Bernard J. Nussbaum, Harold C. Hirshman, Sonnenschein Carlin Nath & Rosenthal, Chicago, Illinois, of counsel), *for Plaintiff-Appellant.*

STANLEY D. ROBINSON, New York, New York (Milton Handler, Michael Malina, Allen Kezsbom, Gerald Sobel, Randolph S. Sherman, Kaye, Scholer, Fierman, Hays & Handler, New York, New York, Robert S. Banks, Xerox Corporation, Stamford, Connecticut, of counsel), *for Defendant-Appellee.*

MESKILL, *Circuit Judge*:

The plaintiff, SCM Corporation (SCM), appeals from an order entered in the United States District Court for the District of Connecticut, Jon O. Newman, *Judge,* dismissing its claim for monetary damages asserted in this private antitrust action for injuries sustained as a result of alleged exclusionary acts committed by the defendant, Xerox Corporation (Xerox), in violation of §§ 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2 (1976), and § 7 of the Clayton Act, 15 U.S.C. § 18 (1976). The trebled amount

of damages calculated by the jury on this claim totalled $111.3 million. The principal anticompetitive acts alleged by SCM concerned patent acquisitions made by Xerox. SCM averred that Xerox's acquisition of certain patents and subsequent refusal to license those patents excluded SCM from competing effectively in a relevant product market and submarket dominated by Xerox products that embraced the patented art. Judge Newman ruled below that a need to accommodate the antitrust and patent laws precluded damage liability predicated upon Xerox's refusal to license its patents; however, he left open the possibility of granting the plaintiff equitable relief. Judge Newman certified his order for interlocutory review pursuant to 28 U.S.C. § 1292(b) (1976) and, as developed below, we exercised our discretion under that section to accept this appeal. Without commenting upon Judge Newman's remedial theory, we affirm the denial of monetary damages in connection with SCM's exclusionary claim based upon our determination that none of Xerox's patent-related conduct, the only conduct alleged by SCM to have caused it any harm, contributed to any antitrust violation.

SCM also appeals from a judgment entered pursuant to Rule 54(b), 28 U.S.C., Fed. R. Civ. P. 54(b) (1976), dismissing its claim for monetary damages based upon injuries sustained as a result of certain marketing programs it alleged violated § 2 of the Sherman Act and § 3 of the Clayton Act, 15 U.S.C. § 14 (1976). Judge Newman held that this claim could not support an award of damages because "the jury [had not been] given a rational basis for approximating" the damages incurred by SCM. 463 F.Supp. at 1019. We affirm Judge Newman's decision.

BACKGROUND

Chester Carlson—The Inventor

In the 1930s, a patent attorney turned inventor, named Chestor Carlson, invented a process, subsequently called xerography, that within two decades would revolutionize the document reproduction industry. The xerographic process is described in Judge Newman's opinion below, reported at 463 F.Supp. 983.

Two adaptations of the xerographic process are particularly relevant to this case. The first is electrofax copying, a process which involves the reproduction of images on paper coated with zinc-oxide. The second, xerography in the reusable mode, is a more complex process which permits images to be reproduced on plain paper.

The significance in distinguishing between coated-paper copying and plain-paper copying is that Xerox, which later came to control Carlson's patents and all of the xerographic improvement patents, agreed to grant licenses for coated-paper copying but refused to grant licenses for plain-paper copying. The result was that from 1960 until 1970, when IBM introduced its first plain-paper copier, Xerox enjoyed an absolute monopoly in the plain-paper copying segment of the industry.

Both the plain- and coated-paper copiers were introduced into a market that formerly had been limited to machines that employed "duplicating" processes as opposed to the "copying" processes just described. The principal duplicating processes then in use were offset, spirit, and mimeograph, all of which were developed around the turn of the century. The duplicating processes all had one common characteristic—they required the preparation of a master or stencil. Ultimately the copying machines formed a discrete market in which the duplicat-

ing machines could not effectively compete; however, precisely when that even occurred was not determined by the jury below.

The Carlson-Battelle Relationship

Chester Carlson, from 1940 to 1944, made eighteen attempts to find a commercial backer for his invention. Carlson was turned down by IBM on three separate occasions, two of which involved an offer by Carlson to sell exclusive rights to all of his patents. Finally, in 1944, Carlson entered into an agreement with Battelle Memorial Institute (Battelle), a non-profit research organization self-described as "in the business of developing and improving technical inventions and in selling the rights thereon when patented." Pursuant to this agreement, Battelle received an exclusive license under Carlson's patents; a wholly owned subsidiary, Battelle Development Corp. was designated as Carlson's exclusive licensing agent; and Battelle agreed to pay Carlson forty percent of any royalties it might receive. Subsequently, Carlson formally assigned his patents to Battelle. Thereafter, Battelle secured patents covering many improvements it invented in the xerographic process that would prove to be of vital importance to the production of an automatic plain-paper copier.

The Xerox-Battelle Agreements

Between 1944 and 1947 Battelle experienced difficulty, as had Carlson, in its efforts to secure financial backing. Carlson and Battelle approached thirty-six companies, including IBM, but none was sufficiently interested. In 1946 the Haloid Company of Rochester, New York (later renamed and hereinafter referred to as Xerox) ap-

proached Battelle and offered its assistance in the commercialization of xerography. During the next ten years, the parties entered into a series of four basic agreements pursuant to which Xerox acquired complete title to the Carlson-Battelle patents and exclusive domain over the plain-paper copying industry. We describe these agreements in some detail.

The first agreement between Xerox and Battelle, executed in 1947, denied Xerox the exclusive license it sought and instead gave it a *non-exclusive* license covering limited applications of xerography. Xerox agreed to pay Battelle an eight percent royalty and to sponsor $25,000 of xerographic research at Battelle a year. The license was limited to patented inventions that would produce up to twenty copies of a document. Xerox also agreed to grant back to Battelle royalty-free rights on any xerographic patents it might obtain in connection with its own or sponsored research. Finally, Battelle agreed, as was its usual practice, not to work for another company in the xerographic field occupied by Xerox for the term of the agreement.

The second agreement, executed in 1948, granted Xerox an *exclusive* license to the Carlson-Battelle patents, on the condition that Xerox "use diligent efforts to secure sublicensees to engage in research, development and commercialization of the inventions and patents" involved. Additionally, the 20-copy limitation was removed from the license agreement, affording Xerox more latitude in its efforts to exploit the commercial potential of xerography.

The third agreement, executed in 1951, continued Xerox's obligation to use diligent efforts to seek sublicensees, but extended the scope of the license, which under the 1947 and 1948 agreements had been limited to use in

the United States, to include use worldwide. Additionally, all remaining limitations on the fields in which Xerox could practice xerography under the 1948 agreement were removed.

Before discussing the fourth agreement executed by the parties in 1956, which is central to SCM's claims in this case, it is necessary to describe the circumstances of the parties and the market at that time. By the early 1950s Xerox had experienced success in two commercial applications of xerography. One machine, a flat-plate copier, which required twenty manual steps and three or four minutes to produce a single copy, found some market acceptance for preparing paper masters for offset duplicators. Another machine, the "Copyflo," a huge machine weighing approximately one ton, achieved substantial success in printing microfilm. By 1956, Xerox was deriving forty percent of its profit from its xerographic products. SCM does not contend that either of these products found commercial acceptance as convenience office copiers, the product market that SCM claims Xerox dominated for over a decade. Nevertheless, there is evidence in the record tending to prove that Xerox possessed the technology in 1955 to manufacture an automatic plain-paper copier, and that Xerox speculated that the value of even a non-exclusive license of its xerographic patents was worth $70 million. Despite its continuing obligation under the 1948 and 1951 agreements to secure sublicensees, Xerox turned down license requests from such potential competitors as IBM, which by then apparently had formed a different opinion concerning the commercial feasibility of xerography. Although the record is not clear, it appears that coated-paper copiers, other than the electrofax (xerographic), had made inroads into the document reproduction machine industry by the early 1950s.

These coated-paper copiers included a "wet" photographic type process called "diffusion transfer," marketed by Apeco, another "wet" process called "dye transfer," advanced by Kodak, and a "dry" thermographic process that used heat-sensitive coated paper manufactured by 3M. In 1954 RCA introduced its electrofax machine and attempted to obtain xerographic licenses from Xerox. Also in this document reproduction industry in 1956 were the offset, mimeograph, and spirit machines that by then had been in use for half a century. (SCM Br. 18-19).[1] It was in this context that Xerox entered into its final agreement with Battelle.

The fourth agreement, executed in 1956, transferred title to the four basic Carlson-Battelle patents to Xerox and abrogated Xerox's sublicensing obligation. In return, Battelle received 55,000 shares of Xerox stock and a percentage of Xerox's profits between 1959 and 1965.[2] Xerox also received an exclusive license to the remaining Carlson-Battelle patents, title formally to be assigned on

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1 SCM did not attempt to define the composition of the relevant product market in 1956, because SCM did not allege that Xerox's conduct at this time was directed at monopolizing the relevant product market then in existence. The relevant product market, which SCM claimed Xerox monopolized by 1964, allegedly consisted only of plain- and coated-paper copiers, and was described as the convenience office copier market. SCM also argued that plain-paper copiers by 1964 formed a relevant submarket over which Xerox acquired monopoly control. Xerox on the other hand argued that the relevant product market included offset, spirit, and mimeograph equipment. In any event, the jury found the markets suggested by SCM existed in 1969 but *not* in 1964. In view of SCM's failure to challenge the jury's determination on appeal, we see no reason to disturb the jury's finding that the relevant product market and submarket SCM defined did not exist in 1964.

Thus, we have no clear picture of the relevant product market that existed in 1956 when Xerox entered into its final agreement with Battelle that SCM claims violated the antitrust laws.

2 Chester Carlson received 40% of the consideration given Battelle.

January 1, 1959. Additionally, Xerox received the right to receive all future xerographic patents and know-how developed by Battelle, provided that Xerox continued to sponsor research in the amount of $25,000 annually. Finally, the 1956 agreement eliminated Xerox's obligation to assign its own internally developed patents to Battelle.[3] On January 2, 1959, the assignment from Battelle to Xerox of the xerographic improvement patents occurred pursuant to the terms of the agreement entered into between the parties in 1956.

Xerox's International Family of Companies

In 1956 Xerox entered into a joint venture with the Rank Organisation, a British company, to assist in the commercial exploitation of xerography everywhere except the United States and Canada. The agreement created Rank Xerox, a joint venture. The agreement included a clause obligating the joint venture to grant Xerox exclusive rights in the United States and Canada to improvement patents it might obtain.[4] The jury found that Rank was not a potential competitor of Xerox. In any event there was no agreement that Rank Xerox would not compete against Xerox in the United States.

In 1960, Rank Xerox formed a separate joint venture with Fuji Photo Film, a Japanese enterprise. The jury found that Fuji Photo Film was a potential competitor of

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3 In September 1956, Xerox also entered into an agreement with another research organization named Horizons, Inc. Under the agreement, Horizons granted Xerox non-exclusive licenses under xerographic patents it had obtained and, like Battelle, agreed to perform xerographic research exclusively for Xerox. The agreement was renewed in 1960.

4 Xerox received only one grant-back patent which it used in a commercial product.

Xerox and Rank Xerox. The agreement created Fuji Xerox. This agreement also contained a grant-back clause that entitled Xerox to exclusive rights in all countries except Japan and eight Asian nations to all inventions Fuji Xerox might make in the xerographic field. There was no agreement preventing Fuji Xerox from competing with Xerox in the United States; however, Fuji Xerox was not licensed under Xerox's patents in the United States and thus could not compete in this country in the alleged plain-paper copier submarket without infringing Xerox's patents here.

In 1969, Xerox purchased an additional one percent of Rank Xerox's stock, increasing its stock ownership in the joint venture to fifty-one percent. Additionally, the grant-back clause of the joint venture agreement was eliminated.

Xerox Introduces the 914

In March 1960, Xerox made initial deliveries of the 914, its first automatic plain-paper copier. The 914 was a resounding success. Between 1960 and 1970, Xerox's revenues rose from $47 million to $1.7 billion; during the same period its gross profits increased from $6 million to $400 million. By 1975 Xerox's revenues reached $4 billion and its gross profits rose to over $800 million.

Xerox enjoyed a complete monopoly in the production of plain-paper copiers between 1960 and 1970. In 1960 SCM introduced a coated-paper copier that employed a diffusion transfer process. In 1962 SCM produced an electrofax coated-paper copier, which infringed some of Xerox's patents. Following a brief infringement suit, Xerox in 1964 granted SCM limited licenses under its patents to manufacture xerographic coated-paper copiers. Xerox refused, however, to extend licenses to SCM that

would enable it to manufacture its own plain-paper copier. Similar requests were made by SCM in the ensuing years but repeatedly denied by Xerox. Finally, in 1970, without obtaining licenses from Xerox, IBM introduced a plain-paper copier into the market; other companies followed IBM's lead in the early seventies.

Additional Alleged Anticompetitive Conduct of Xerox

a. *Employee Covenants Not to Compete*

Up until 1970, Xerox imposed upon its employees an employment condition that in the event they terminated their employment with Xerox, they could not work for a competitor for a period of two years. At Xerox's request, Battelle imposed a similar restriction on six of its employees. SCM presented no evidence that it ever attempted to hire a Xerox or Battelle employee covered by such a restrictive covenant.

b. *MUP and XCP Pricing Plans*

In the 1960s Xerox's only real competition was in the "low volume" copier market, a market in which coated-paper copiers could compete because of their relative cost efficiency at the low-volume usage level. Around 1967 several manufacturers of coated-paper copiers instituted "volume" or "fleet" pricing plans under which subscribing customers received discounts based upon the aggregate volume of copies made on all machines used by the customer.

In 1968 Xerox responded with its own volume pricing plan entitled the "Machine Utilization Plan" (MUP). MUP afforded to Xerox customers a discount based upon the customer's total volume from both low-volume (an area in which coated-paper copiers could compete) and

high-volume machines (an area in which coated-paper copiers could not effectively compete). The MUP plan was replaced by a similar program, the XCP plan, in 1975. SCM argued that MUP constituted an illegal tying arrangement that coerced Xerox customers to use Xerox low-volume machines instead of competitors' low-volume copiers to meet minimum volume levels to be eligible for MUP discounts.

The Federal Trade Commission (FTC) Proceeding

In January 1973 the FTC filed a complaint against Xerox charging that the company's conduct had violated § 2 of the Sherman Act. The FTC sought a decree enjoining Xerox to license its patents and to sever its relationship with its affiliated companies. The action was terminated upon the entry of a consent decree on July 29, 1975 under which Xerox agreed to license all of its patents in exchange for nominal royalties and grant-backs of non-exclusive licenses under all xerographic patents owned by licensees. Thus, as of July 29, 1975, Xerox's patents no longer excluded a potential competitor from the market.

SCM's Claims and the Decision Below

SCM filed its complaint in this action on July 31, 1973. Discovery was completed in 1977 and the trial terminated in 1978 following 215 days in which evidence was presented and 38 days of jury deliberation. SCM asserted five claims for monetary damages at trial. *See* 463 F.Supp. at 986-91. Only two of those claims have been pursued on this appeal.

a. *The 1969 Exclusion Claim*

The gist of SCM's 1969 exclusion claim[5] is that by 1969 Xerox had willfully acquired monopoly power in a relevant product market consisting of convenience office copiers using plain and coated paper and in a relevant submarket consisting only of plain-paper copiers, and that Xerox's conduct excluded SCM from the relevant market and submarket.

The jury rejected SCM's argument that the relevant product market and submarket defined by SCM existed in 1964, but accepted the contention that the market and submarket so defined existed in 1969. The jury made a specific finding that the only patent-related conduct of Xerox causally related to SCM's claimed injuries under its 1969 exclusion claim was the 1956 Xerox-Battelle agreement. The 1956 agreement, therefore, is the only basis upon which SCM can recover any monetary dam-

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5 SCM originally sought to recover damages for financial injuries it sustained as far back as 1964, the year SCM first requested a license from Xerox to manufacture its own plain-paper copier.

Since the complaint was filed on July 31, 1973, the period of injury for which recovery could be sought ordinarily would be governed by the four-year statute of limitations provided under the antitrust laws, 15 U.S.C. § 15b (1976), and extend back only to July 31, 1969. Because the FTC instituted a proceeding against Xerox on January 16, 1973, § 16(i) of Title 15 of the United States Code, which tolls the normal statute of limitations upon the commencement of an FTC proceeding, extended the period back to January 16, 1969. Finally, Xerox did not object to including the first two weeks of January, so that January 1, 1969 became the outside date.

SCM asserted, nevertheless, that its injuries sustained in 1964 were not ascertainable until the FTC proceeding was commenced in 1969 and that, therefore, it was entitled to recovery for losses sustained in 1964. Because of the statute of limitations question, SCM's claim for damages prior to 1969 was characterized as a distinct claim—the "1964 Exclusion Claim"—to avoid confusion. SCM has not pursued its 1964 exclusion claim on this appeal because the jury found that SCM lacked the intent, preparedness, and capacity to enter into plain-paper copying in 1964. Thus, we need not address the statute of limitations issue.

ages under its 1969 exclusion claims. As Judge Newman noted below:

> SCM cannot predicate damage liability on any non-patent-related conduct because it neither claimed nor offered evidence that any such conduct, the post-employment covenants, for example, caused it any damage. SCM's entire exclusion damage proof consisted of the losses suffered by lack of licenses.

463 F.Supp. at 1010.

The jury found that the 1956 agreement constituted an unreasonable restraint of trade in 1964 and 1969 in violation of § 1 of the Sherman Act,[6] and had the probable effect of substantially lessening competition or tending to create a monopoly in 1969 in both the convenience office copier market and the plain-paper copier submarket in violation of § 7 of the Clayton Act.

Upon all of the evidence of Xerox's alleged anti-competitive conduct, the jury concluded that as of 1969 Xerox willfully acquired or maintained monopoly power in the relevant product market and submarket in violation of § 2 of the Sherman Act.[7] The jury calculated SCM's

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6 The jury rejected SCM's claim that Xerox had entered into a concerted refusal to deal with Rank Xerox and Fuji Xerox aimed at excluding competitors from manufacturing plain-paper copiers worldwide as of 1964 or 1969.

7 While only Xerox's patent-related conduct was alleged by SCM to have caused it any injury, the jury's finding that Xerox monopolized the relevant market and submarket in 1969 in violation of § 2 of the Sherman Act must be presumed to have been based upon the evidence offered by SCM against Xerox concerning both Xerox's patent-related and non-patent-related conduct. The latter category could include the Horizons Corporation patent acquisition, the grant-backs of licenses from Xerox's licensees, the employee covenants not to compete, and the joint venture agreements entered into between Xerox and the Rank Organization and Fuji Photo. As Judge Newman observed below, however, it is likely that the jury primarily relied upon the 1956 Xerox-Battelle agreement as the basis for its § 2 violation finding. *See* 463 F.Supp. at 1008.

damages under the 1969 exclusion claim at $11.5 million in lost profits and $25.6 million in lost going concern value. Trebled, the damages amount to $111.3 million. The jury found, however, that SCM reasonably could have avoided all of the 1969 exclusion claim damages by instituting this action against Xerox earlier.[8]

Judge Newman seriously questioned whether any of Xerox's conduct had violated any of the antitrust laws. Judge Newman, however, chose not to disturb the jury verdicts. Instead, the district court ruled, as a matter of law, that Xerox's unilateral refusal to license its patents was not a basis for a monetary damage award. 463 F.Supp. at 1014-15. Judge Newman opined that this result was necessary in order to accommodate the antitrust and patent laws. *Id.* He certified his order denying monetary damages under the 1969 exclusion claim for appeal pursuant to 28 U.S.C. § 1292(b) (1976). 463 F.Supp. at 1021. After remanding the case for further clarification, *see* 599 F.2d 32, and the district court's restatement of the question certified for interlocutory review, *see* 474 F.Supp. 589, we exercised our discretionary power by an order dated May 25, 1979, to accept this interlocutory appeal.

b. *The MUP Claim*

The jury concluded that Xerox's MUP constituted an illegal tying arrangement that violated § 3 of the Clayton Act, 15 U.S.C. § 14 (1976), as well as an effort by Xerox to maintain its monopoly power in the relevant market and submarket in violation of § 2 of the Sherman Act, 15 U.S.C. § 2 (1976). The jury awarded $230,874 to SCM

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8 Although we seriously question the appropriateness of applying the avoidable consequences doctrine to a case such as the one before us, we need not resolve that issue in light of our holding that the conduct complained of by SCM did not violate the antitrust laws.

for injuries it sustained as a result of MUP. Judge Newman set aside the jury's verdict under the MUP claim on the ground that the "jury was not given a sufficient basis from which it could reasonably conclude that the lost profits claimed by SCM were caused by MUP." 463 F.Supp. at 1018. The route to appellate review of the disposition of the MUP claim was found through the entry of a final judgment on that claim pursuant to Rule 54(b) of the Federal Rules of Civil Procedure.

DISCUSSION

The 1969 Exclusion Claim

SCM argues on this appeal that the economic monopoly Xerox achieved through the patents it obtained from Battelle in 1956 was unlawful. The issue presented on this appeal in connection with SCM's 1969 exclusion claim, however, is not whether any of Xerox's conduct between 1947 (when it first contacted Battelle) until 1975 (when Xerox agreed voluntarily to license all of its patents) violated any of the antitrust laws, but rather, whether any of Xerox's conduct during that period caused Xerox to incur damage liability under the antitrust laws to SCM. SCM's damage claim must be predicated upon an "injury of the type the antitrust laws were intended to prevent and that flows from that which makes the defendants' acts unlawful." *Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977); *accord, Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 114 n.9 (1969); *see* Areeda, *Antitrust Violations Without Damage Recoveries*, 89 Harv. L. Rev. 1127, 1130-37 (1976). SCM did not contend below that it sustained any injuries other than by reason of Xerox's allegedly unlawful patent-related conduct, and the jury identified the 1956 agreement

as the sole patent-related conduct that caused SCM any harm. Therefore, only if Xerox's procurement of the patents under the 1956 agreement contributed to an antitrust violation can SCM recover damages under its 1969 exclusion claim.

SCM has argued that Xerox's acquisition of its patents and subsequent exercise of the exclusionary power in them violated the antitrust laws and injured SCM. Xerox contends that its acquisition of the patents was lawful and its decision not to license its patents for plain-paper copying constituted a lawful exercise of patent power. Xerox does not dispute that it achieved monopoly power in the relevant market and submarket by 1969, but contends that an examination of the circumstances under which this feat was accomplished reveals the lawfulness of the monopoly it attained. Our analysis commences with a review of the relationship between the patent and antitrust laws.

I.

The patent laws were enacted pursuant to Congress' authority to "promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." U.S. Const., Art. I, § 8, cl. 8. That the first patent laws were enacted at the second session of our first Congress manifests the importance our founding fathers attached to encouraging inventive genius, a resource that proved to be bountiful throughout this nation's history. The patent laws reward the inventor with the power to exclude others from exploiting his invention for a period of seventeen years. 35 U.S.C. § 154 (1976). In return, the public benefits from the disclosure of inventions, the entrance into the

market of valuable products whose invention might have been delayed but for the incentives provided by the patent laws, and the increased competition the patented product creates in the marketplace. The antitrust laws, on the other hand, were enacted to protect competition in the market. The antitrust laws are based upon the fundamental premise that the public benefits most from a competitive marketplace. *Standard Oil Co.* v. *United States,* 221 U.S. 1, 58 (1911); *United States* v. *Aluminum Co. of America,* 148 F.2d 416, 428-29 (2d Cir. 1945).

The conflict between the antitrust and patent laws arises in the methods they embrace that were designed to achieve reciprocal goals. While the antitrust laws proscribe unreasonable restraints of competition, the patent laws reward the inventor with a temporary monopoly that insulates him from competitive exploitation of his patented art. When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise. When, however, the patented product is so successful that it evolves into its own economic market, as was the case here, or succeeds in engulfing a large section of a preexisting product market, the patent and antitrust laws necessarily clash. In such cases the primary purpose of the antitrust laws—to preserve competition—can be frustrated, albeit temporarily, by a holder's exercise of the patent's inherent exclusionary power during its term.

II.

The law is unsettled concerning the effect under the antitrust laws, if any, that the evolution of a patent monopoly into an economic monopoly might have upon a

patent holder's right to exercise the exclusionary power ordinarily inherent in a patent. Indeed, implicit in Judge Newman's decision below is a deep concern over the uncertain antitrust law implications just such an event might have had in this case. His thoughtful analysis of the relationship between the patent and antitrust laws led him to conclude that "the need to accommodate the patent laws with the antitrust laws precludes the imposition of damage liability . . . for a unilateral refusal to license valid patents." 463 F.Supp. at 1012-13. Judge Newman opined that whether or not Xerox's refusal to license the patents it acquired under the 1956 agreement transgressed any provisions of the antitrust laws, monetary damage liability could not be imposed upon Xerox without seriously undermining the patent system. The district court's thesis rests on the assumption that despite the lawfulness of a patent's acquisition, "[i]n some circumstances, [a] refusal to license may be considered a § 2 violation." 463 F.Supp. at 1012.

SCM has contended that a unilateral refusal to license a patent should be treated like any other refusal to deal by a monopolist, *see generally Otter Tail Power Co.* v. *United States,* 410 U.S. 366 (1973); *Lorain Journal Co.* v. *United States,* 342 U.S. 143 (1951); *Eastman Kodak Co.* v. *Southern Photo Materials Co.,* 273 U.S. 359 (1927), where the patent has afforded its holder monopoly power over an economic market. While, as SCM suggests, a concerted refusal to license patents is no less unlawful than other concerted refusals to deal, in such cases the patent holder abuses his patent by attempting to enlarge his monopoly beyond the scope of the patent granted him. *See, e.g., Zenith Radio Corp.* v. *Hazeltine Research, Inc., supra,* 305 U.S. at 118-19; *United States* v. *Singer Manufacturing Co.,* 374 U.S. 174, 192-97 (1963); *United*

States v. *Line Material Co.*, 333 U.S. 287, 314-15 (1948); *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 406-07 (1945); *United States* v. *Masonite Corp.*, 316 U.S. 265, 277 (1942). Where a patent holder, however, merely exercises his "right to exclude others from making, using, or selling the invention," 35 U.S.C. § 154 (1976), by refusing unilaterally to license his patent for its seventeen-year term, *see, e.g.*, *Bement* v. *National Harrow Co.*, 186 U.S. 70, 88-90 (1902), such conduct is expressly permitted by the patent laws. "The heart of [the patentee's] legal monopoly is the right to invoke the State's power to prevent others from utilizing his discovery without his consent." *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, *supra*, 395 U.S. at 135 (citing *Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U.S. 24 (1923); *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908)). Simply stated, a patent holder is permitted to *maintain* his patent monopoly through conduct permissible under the patent laws.

No court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary power inherent in his patent the instant his patent monopoly affords him monopoly power over a relevant product market. In *Alcoa* this Court never questioned the legality of the economic monopoly Alcoa maintained by virtue of the two successive patents it had acquired. *United States* v. *Aluminum Co. of America*, *supra*, 148 F.2d at 422, 430. Indeed, Judge Learned Hand termed Alcoa's economic monopoly during the terms of those patents "lawful." 148 F.2d at 430. We do not interpret Judge Wyzanski's decision in *United States* v. *United Shoe Machinery Corp.*, 110 F.Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954), as supporting SCM's argument to the contrary. In *United Shoe*, the primary vehicle found to

have been employed by United Shoe in achieving and maintaining its monopoly was its lease-only system of distributing its machines. 110 F.Supp. at 344. The patent acquisitions scrutinized by Judge Wyzanski occurred after United Shoe possessed substantial market power and were not "one of the principal factors . . . enabling [United Shoe] to achieve and hold its share of the market." 110 F.Supp. at 312. Thus, contrary to appellant's contention, the *United Shoe* case stands in stark contrast to the one at bar where the patents were acquired prior to the appearance of the relevant product market and where the patents themselves afforded Xerox the power to achieve eventual market dominance.

In *Alcoa* Judge Learned Hand stated that the "successful competitor, having been urged to compete, must not be turned upon when he wins." 148 F.2d at 430. And while that statement was made in regard to a hypothetical situation where only one of a group of competitors ultimately survives, it at least indicates a concern Judge Hand had for preserving those economic incentives that provide the primary impetus for competition. Subsequently, the Supreme Court in *United States* v. *Grinnell Corp.*, 384 U.S. 563 (1966), amplified this consideration when it set forth the elements of a § 2 violation as follows:

> The offense of monopoly under § 2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power *as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.*

Id. at 570-71 (emphasis added).

Thus, in *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, 603 F.2d 263, 275 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980), this Court stated that "[w]e tolerate the existence of monopoly power . . . only insofar as necessary to preserve competitive incentives and to be fair to the firm that has attained its position innocently." In *United States* v. *Griffith*, 334 U.S. 100 (1948), the Supreme Court declared, however, that "the use of monopoly power, however lawfully acquired, to foreclose competition, to gain a competitive advantage, or to destroy a competitor, is unlawful." *Id.* at 107. Echoing the same consideration in *Berkey*, Judge Kaufman stated that while "[t]he mere possession of monopoly power does not *ipso facto* condemn a market participant . . . , the firm must refrain at all times from conduct directed at smothering competition." *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, *supra*, 603 F.2d at 275.

The tension between the objectives of preserving economic incentives to enhance competition while at the same time trying to contain the power a successful competitor acquires is heightened tremendously when the patent laws come into play. As the facts of this case demonstrate, the acquisition of a patent can create the potential for tremendous market power.

III.

Patent *acquisitions* are not immune from the antitrust laws. Surely, a § 2 violation will have occurred where, for example, the dominant competitor in a market acquires a patent covering a substantial share of the same market that he knows when added to his existing share will afford him monopoly power. *See generally Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344

U.S. 837 (1952); *United States* v. *Besser Manufacturing Co.*, 96 F.Supp. 304, 310-11 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952). That the asset acquired in a patent is irrelevant; in such a case the patented invention already has been commercialized successfully, and the magnitude of the transgression of the antitrust laws' proscription against willful aggregations of market power outweighs substantially the negative effect that the elimination of that class of purchasers for commercialized patents places upon the patent system.

The patent system would be seriously undermined, however, were the threat of potential antitrust liability to attach upon the acquisition of a patent at a time prior to the existence of the relevant market and, even more disconcerting, at a time prior to the commercialization of the patented art. As SCM itself admits, the procurement of a patent by the inventor will not violate § 2 even where it is likely that the patent monopoly will evolve into an economic monopoly; yet SCM would deny the same reward to anyone but the patentee.[9]

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9 Notwithstanding that "[t]he law . . . recognizes that [a patentee] may assign to another his patent, in whole or in part, and may license others to practice his invention." *Zenith Radio Corp.* v. *Hazeltine Research, Inc., supra*, 395 U.S. at 135, SCM argues that a distinction should be made between the exploitation of a patent by an inventor and an investor. We assume, therefore, that had Chester Carlson possessed the resources to commercialize xerography to the same extent as did Xerox, SCM would not have challenged a refusal by the inventor to license his patents as violative of the antitrust laws. Investors, however, play a key role, if not an indispensable one today, in both the inventive process and commercialization of inventions. And it is fair to say, we think, that the contribution of the investor in both the funding of research that leads to inventions and the promotion that necessarily must follow to achieve successful commercialization is of comparable value. *See generally Picard* v. *United Aircraft Corp.*, 128 F.2d 632, 642 (2d Cir.), *cert. denied*, 317 U.S. 651 (1942) (Frank, J., concurring). In either case, the ultimate intended beneficiary of the patent laws—the public—is equally benefited. *See generally Mannington Mills, Inc.* v. *Congoleum Industries, Inc.*, 610 F.2d

If the antitrust laws were interpreted to proscribe the natural evolution of a patent monopoly into an economic monopoly, then Judge Newman's concern would be well founded. If the threat of treble damage liability for refusing to license were imbedded in the minds of potential patent holders as a likely prospect incident to every successful commercial exploitation of a patented invention, the efficacy of the economic incentives afforded by our patent system might be severely diminished.

Nevertheless, it is especially clear that the economic incentives provided by the patent laws were intended to benefit only those persons who lawfully acquire the rights granted under our patent system. *Cf. Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965 (patent obtained by fraud on Patent Office). Where a patent in the first instance has been lawfully acquired, a patent holder ordinarily should be allowed to exercise his patent's exclusionary power even after achieving commercial success; to allow the imposition of treble damages based on what a reviewing court might later consider, with the benefit of hindsight, to be too much success would seriously threaten the integrity of the patent system. Where, however, the acquisition itself is unlawful, the subsequent exercise of the ordinarily lawful exclusionary power inherent in the patent would be a continuing wrong, a continuing unlawful exclusion of potential competitors.

1059, 1070-71 (3d Cir. 1979); *United States* v. *Parker-Rust-Proof Co.*, 61 F.Supp. 805, 808 (E.D. Mich. 1945); *In re Anthony*, 414 F.2d 1383, 1398 (C.C.P.A. 1969); *In re Herr*, 377 F.2d 610, 619 (C.C.P.A. 1967). Since Xerox participated financially in both the inventive process by funding research at Battelle and the subsequent commercialization of xerography by bringing the first plain-paper copier to the market, we see little reason to deny Xerox the full benefit of the patents it acquired on this basis alone.

Without passing upon the validity of Judge Newman's theory to preclude antitrust damage liability in all cases where the injury is predicated upon a patent holder's refusal to license, we hold that where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws.[10] This holding, we believe, strikes an adequate balance between the patent and antitrust laws. Therefore, to determine whether Xerox incurred any antitrust damage liability to SCM in 1969, our inquiry must now shift to determining whether the acquisition of the Carlson and Battelle patents pursuant to the 1956 agreement violated either the Sherman Act or the Clayton Act. Because the essence of a patent is the monopoly or exclusionary power it confers upon the holder, analyzing the lawfulness of the acquisition of a patent necessitates that we primarily focus upon the circumstances of the acquiring party and the status of the relevant product and geographic markets at the time of acquisition.

IV.

Section 2 of the Sherman Act

Turning to the facts of this case, the patents about which we are concerned were acquired in 1956, four years prior to the production of the 914, Xerox's first automatic plain-paper copier, and at least eight years prior to the appearance of the relevant market and submarket. In 1956 Xerox had achieved success in the commercialization of xerography but not in the field of automatic plain-

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10 We leave for an appropriate case the resolution of the question whether damage liability can accrue to a holder for refusing to license patents that he subsequently abuses through pooling or otherwise.

paper copying. There is evidence in the record, however, that Xerox in 1956 valued a non-exclusive license in xerography at $70 million and that key personnel at Xerox believed that they already possessed the necessary technology in 1956 to produce a plain-paper copier. Notwithstanding their optimistic forecasts, however, the confidence of the Xerox organization was still tempered by the risks of producing a new, technologically-sophisticated product line. Thus, in 1958 Xerox considered the possibility of having IBM manufacture and market the 914. But before Xerox's management made a final decision on the matter, IBM informed them that it was not interested in manufacturing or marketing the 914 or another model, the 813, having concluded that both were a bad business risk. While SCM argues that IBM's turndown was directed exclusively at the models 914 and 813 and did not amount to a rejection of plain-paper copying entirely, at the very least the episode demonstrates that as of 1958 the achievement of commercial success in plain-paper copying was not a foregone conclusion.

It was also in 1956 that Xerox acquired non-exclusive licenses from Horizons Corporation, another research organization, covering a small number of xerographic patents.[11] Additionally, Xerox began to cultivate relationships with its international family of companies in 1956. But SCM has not argued that either the Horizons patents or the international agreements caused it any injury. Rather, SCM contends that these facts constitute proof of Xerox's willful acquisition of monopoly power over the relevant market and submarket that came into being, according to the jury, between eight and thirteen years

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[11] In 1960 Horizons Corporation agreed to assign these patents to Xerox.

later. Likewise, other aspects of the 1956 agreement with Battelle, such as the promise by Battelle to transfer to Xerox all know-how it developed and patents it obtained in the future were claimed to be additional evidence of Xerox's willful acquisition of its market dominance. But the promise to transfer all xerographic know-how developed and patents obtained in the future was conditioned on Xerox's promise to contribute at least $25,000 a year for research that would help develop the know-how and patents. There appears to be little distinction, if any, between patents obtained under a contract with a research organization and patents generated internally by a company, *see* P. Areeda & D. Turner, Antitrust Law: An Analysis of Antitrust Principles and Their Application ¶ 704e (1978), and ordinarily there is no limitation on a company's freedom to generate its own patents. *See generally Automatic Radio Manufacturing Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827, 834 (1950). The jury's specific finding that by 1969 Xerox had not obtained any patents primarily for the purpose of blocking the development and marketing of competitive products laid to rest any suspicion that either Xerox's internal R & D program or its R & D work subcontracted to Battelle was driven principally by anticompetitive animus.[12] In any event, none of Xerox's conduct other than the acquisition of the Carlson and Battelle patents under the 1956 agreement caused SCM any harm. But even more important, all of the events described occurred between eight and thirteen years prior to the appearance of the relevant product market and submarket defined by SCM.

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12 SCM also argues that the two-year covenants not to compete imposed by Xerox on its employees up until 1972 also evidence Xerox's willful acquisition of monopoly power. We find this argument wholly without merit.

In scrutinizing acquisitions of patents under § 2 of the Sherman Act, the focus should be upon the market power that will be conferred by the patent *in relation* to the market position then occupied by the acquiring party. We agree with Professors Areeda and Turner that whether limitations should be imposed on the patent rights of an acquiring party should be dictated by the extent of the power already possessed by that party in the relevant market into which the products embodying the patented art enter. *See* Areeda & Turner, *supra,* at ¶ 819. Therefore, that Xerox acquired the patents in this case four years prior to the production of the first plain-paper copier and at least eight years prior to the appearance of the relevant product market and submarket over which those patents eventually afforded it monopoly power would seem to dispose entirely of SCM's 1969 exclusion claim under § 2.

SCM argues, however, that

> [t]o uphold the jury's verdicts in this case, this Court need hold only that an agreement to purchase patents that eliminate an existing potential for competition in a reasonably foreseeable economic market can be found to be unreasonable if it (a) results in the acquisition of persistent, substantial, real-world economic monopoly power and (b) imposes a restraint on competition that is greater than reasonably necessary to induce the purchaser to develop and market the product involved.

SCM Reply Br. at 27. SCM's proposition is that even prior to the commercialization of the patented invention and prior to the appearance of the relevant market over which Xerox eventually achieved monopoly power a § 2 violation occurred. SCM suggests that the antitrust laws

impose a limitation on the extent of the rights in a patent a purchaser may acquire, and that in some instances a patent with its inherent exclusionary power may not be transferred *in toto*. The limitation that SCM would impose, however, turns not upon the market position of the acquiring party, but rather, upon the potential for commercial success a particular patent may hold. Thus, SCM argues that a purchaser of a patent is entitled only to the rights in a patent reasonably necessary to induce his investment to commercialize the patent. Presumably, under SCM's proposed rule, where the commercial success of a patented invention virtually is guaranteed, no person other than the inventor can hold exclusive rights in the patent, at least where it is foreseeable that the products generated under the patent will create their own relevant product market.

SCM contends that the test it proposes represents the appropriate rule of reason analysis to be employed in patent acquisition cases. By introducing the concept of foreseeability, SCM seeks to escape an unfavorable disposition of its case that it apparently feared might be based upon the absence of the relevant product market and submarket at the time of the patent acquisitions in 1956. Implicit in the jury's findings was that it was reasonably foreseeable in 1956 that the agreement with Battelle would permit Xerox to obtain monopoly power in a relevant product market.[13] While sufficient evidence was

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13 This finding was implicit in the jury's affirmative answer to question 20: "Was the probable effect of Xerox's acquisition of patents pursuant to the 1956 Xerox-Battelle agreement, when the agreement was made, substantially to lessen competition or to tend to create a monopoly in any relevant market or sub-market that you have found to exist?" In explaining this question, Judge Newman instructed the jurors to determine "whether the acquisition at the time it was made was reasonably probable to have the proscribed effect in the reasonably foreseable future."

presented by Xerox to support a contrary finding, we are unable to hold, as a matter of law, that no rational jury could find that a reasonably foreseeable effect of the 1956 agreement was the eventual acquisition by Xerox of monopoly power in a relevant market. But notwithstanding the jury's implicit finding, we conclude that, under the facts presented here, the policies of the patent laws preclude the imposition of antitrust liability.

It is undisputed that the first automatic plain-paper copier was not produced by Xerox until four years after the 1956 agreement was executed. Additionally, while Xerox concedes that its plain-paper copiers eventually formed an independent relevant product market, SCM has not challenged on appeal the jury's finding that this event did not occur until some time after 1964, eight years after the agreement. Furthermore, Xerox contributed in a very substantial way to the development of an automatic plain-paper copier by investing in research and development not only after 1956 but also for almost a decade before the agreement. Moreover, the party from whom Xerox purchased the patent under the 1956 agreement was not a potential competitor. We believe that, under the circumstances presented here, to impose antitrust liability upon Xerox would severely trample upon the incentives provided by our patent laws and thus undermine the entire patent system. Therefore, irrespective of the jury's implicit finding that Xerox's commercial success was reasonably foreseeable in 1956, Xerox was lawfully entitled to purchase the patents it did pursuant to the agreement it made with Battelle that year.

With respect to Xerox's subsequent unilateral refusal to license the Carlson and Battelle patents, which we have held were lawfully acquired, that conduct was permissible under the patent laws and, therefore, did not give rise to any liability under § 2.

Section 1 of the Sherman Act

SCM contends that the jury implicitly concluded that the patent acquisitions pursuant to the 1956 agreement unreasonably restrained trade in 1956, since they had been instructed that "if it was lawful for Xerox to acquire the four basic Carlson patents in 1956 and the then existing Battelle patents in 1959, then those aspects of the 1956 agreement [could not] contribute to a section 1 violation at some later time." (J. App. 4533). While this may be a fair inference to draw in light of the charge, we are convinced that, as a matter of law, the 1956 agreement did not unreasonably restrain trade in violation of § 1 at the time it was executed. As Judge Newman noted below, the transfer of the Carlson and Battelle patents pursuant to the 1956 agreement could not have restrained any "competition in 1956 or 1959 because there was no competition in any convenience-office copier or plain-paper copier embodying the patented inventions" in either of those years. 463 F.Supp. at 1004.

The gist of SCM's § 1 argument is that absent the 1956 agreement, Battelle would have enforced the sublicensing obligation that its prior agreements had imposed upon Xerox, and through the sublicenses generated by that contractual obligation there would have been competitors in plain-paper copying, with SCM among them. Along the lines of its § 2 argument, SCM argues that the 1956 agreement was an unreasonable restraint of trade because it gave to Xerox absolute exclusionary power, rather than that amount of power reasonably necessary to induce Xerox to continue its efforts to commercialize xerography. SCM contends that because Xerox foresaw commercial success and dominance over the convenience office copier market, the 1956 agreement which gave Xerox the power to eliminate substantial potential com-

petition was unreasonable and, therefore, illegal. Since we have already concluded in our § 2 discussion that under the facts presented here, the policies of the patent laws forbid the imposition of antitrust liability irrespective of the jury's implied finding that Xerox's success in plain-paper copying was foreseeable in 1956, SCM's argument under § 1 along these lines must likewise fail.

While, in an economic sense, it might have been unreasonable in 1964 and 1969 for Xerox unilaterally to refuse to license for plain-paper copying use any of the xerographic patents acquired pursuant to the 1956 agreement, the lawfulness of their acquisition in 1956 rendered that conduct, which was permitted under the patent laws, reasonable for § 1 purposes.[14]

The only continuing contractual obligation under the 1956 agreement which could be reasonably challenged under § 1 as of 1964 or 1969 is the provision that obligated Battelle to continue to assign to Xerox all xerographic patents it obtained and know-how it developed. However, all of the contractual obligations between Xerox and Battelle under the 1956 agreement that are claimed by SCM to have caused it any injury were fully performed by January 2, 1959. SCM offered no evidence at trial that any of the patents Xerox obtained from Battelle after January 2, 1959 caused it any harm. Since the latter provision of the 1956 agreement does not provide a basis for SCM to recover damages, we need not decide its reasonableness under § 1 as of 1964 or 1969.

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[14] In connection with the patents assigned on January 2, 1959, the transfer of these improvement patents on that date pursuant to the 1956 agreement was a mere formality. Under the 1956 agreement, Xerox acquired an exclusive license to each of Battelle's then existing and future xerographic patents on the date the agreement was executed. Thus Xerox had already acquired the exclusionary power inherent in each of those patents prior to their formal assignment on January 2, 1959.

SCM argues alternatively that Xerox's continued holding of the Carlson and Battelle patents unreasonably restrained trade in 1969 in violation of § 1. As Judge Newman noted below, "there is no authority for upholding damage liability under § 1 because of the subsequent holding of a patent previously acquired." 463 F.Supp. at 1004. And we see no reason to expand judicially the scope of § 1 of the Sherman Act to accommodate a claim that is already cognizable under another antitrust provision—§ 7 of the Clayton Act, *see United States* v. *E. I. du Pont de Nemours & Co.*, 353 U.S. 586 (1957) ("du Pont-GM"), especially where the claim has been so asserted.

Section 7 of the Clayton Act

Section 7 of the Clayton Act proscribes a corporation from acquiring the whole or any part of the assets of another corporation where "the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly [in any line of commerce]," 15 U.S.C. § 18 (1976). Since a patent is a form of property, *see generally Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 643 (1947), and thus an asset, there seems little reason to exempt patent acquisitions from scrutiny under this provision. *See United States* v. *Lever Brothers Co.*, 216 F.Supp. 887, 889 (S.D.N.Y. 1963); *see generally* L. Sullivan, Handbook of the Law of Antitrust, § 180 (1977); 16a J. von Kalinowski, Business Organizations: Antitrust Laws and Trade Regulation § 16.05 (1980); Kessler & Stern, *Competition, Contract, and Vertical Integration*, 69 Yale L. J. 1, 75-78 (1959).

Section 7 principally was designed to curtail the anticompetitive consequences of corporate acquisitions in their "incipiency." *Brown Shoe Co.* v. *United States*, 370 U.S. 294, 317 (1962). Thus, the analysis ordinarily em-

ployed in determining the lawfulness of a corporate acquisition under § 7 is prospective in nature. The jury found that the probable effect of the 1956 Xerox-Battelle agreement was substantially to lessen competition or to tend to create a monopoly in the relevant product market and submarket that appeared between eight and thirteen years later. The jury additionally found that, as of 1964 and 1969, the probable effect of Xerox's continued holding of patents acquired pursuant to the 1956 Xerox-Battelle agreement was substantially to lessen competition or to tend to create a monopoly. We conclude that neither of these findings can stand as a matter of law.

While the Supreme Court in *Brown Shoe Co.* v. *United States, supra*, 370 U.S. at 323, stated that the language contained in § 7 is indicative that Congress' "concern was with probabilities, not certainties," the speculative aspect of this antitrust law was intended to allow courts to appreciate immediately the potential consequences that a particular acquisition might have upon an *existing* line of commerce. Thus in *Brown Shoe,* the Supreme Court stated:

> Because § 7 of the Clayton Act prohibits any merger which may substantially lessen competition "in *any* line of commerce," (emphasis supplied) it is necessary to examine the effects of a merger in each such economically significant submarket to determine if there is a reasonable probability that the merger will substantially lessen competition.

370 U.S. at 325. The existing market provides the framework in which the probability and extent of an adverse impact upon competition may be measured. In the case at bar it would have been impossible to examine the effects

of the Xerox-Battelle agreement upon the relevant product market and submarket in 1956 because those markets did not come into being until sometime between 1964 and 1969. The jury was instructed that it should include in its considerations whether the appearance of the relevant market and submarket and Xerox's domination of those markets was reasonably foreseeable in 1956. (J. App. 4551-54).

Judge Newman concisely stated below that "[s]ection 7 is concerned with undue concentrations of power and the anti-competitive effects of permitting one entity with market power to strengthen its position by acquisition." 463 F.Supp. at 1001-02. Where, as here, it is conceded that the relevant product market and submarket did not exist until eight years following the patent acquisitions and that Xerox possessed no power whatsoever in even the inchoate market and submarket until 1960 when it introduced its 914 copier, as a matter of law the 1956 agreement did not violate § 7 at the time it was made. Finally, our decision regarding SCM's foreseeability argument under §§ 1 and 2 of the Sherman Act disposes of its argument propounded under § 7 along those lines.

SCM argues alternatively that the Supreme Court's decisions in *du Pont-GM, supra,* and *United States* v. *ITT Continental Baking Co.*, 420 U.S. 223 (1975), require that we affirm the jury's second finding under § 7 that Xerox's continued "holding" of the patents it obtained under the Xerox-Battelle agreement in 1956 violated § 7 as of 1969. In *du Pont-GM,* the government commenced its action approximately thirty years after du Pont had purchased a twenty-three percent stock interest in General Motors Corporation, and alleged that du Pont had used its stock ownership to attain a "commanding position as

General Motors' supplier of automotive finishes and fabrics," 353 U.S. at 588-89. There, the Court held that

> any acquisition by one corporation of all or any part of the stock of another corporation, competitor or not, is within the reach of the section *whenever the reasonable likelihood* appears that the acquisition will result in a restraint of commerce or in the creation of a monopoly in any line of commerce.

353 U.S. at 592 (emphasis added). Subsequently, in *ITT Continental Baking*, the Court reaffirmed, albeit in dictum, its holding in *du Pont-GM* that the term acquisition as it is employed in § 7 comprehends both the initial "acquiring" and subsequent "retaining" of the stock of another corporation. 420 U.S. at 241-42. Relying on these cases, SCM would have us hold that Xerox's acquisition of the Carlson and Battelle patents in 1956 became actionable under § 7 as soon as the monopoly afforded by the patents burgeoned into an economic monopoly. Whatever the meaning that may be ascribed to § 7 in other contexts, the patent laws circumscribe the scope of the provision here. Where a corporation's acquisition of a patent is not violative of § 7, as was the case here, its subsequent holding of the patent cannot later be deemed violative of this section. Where a company has acquired patents lawfully, it must be entitled to hold them free from the threat of antitrust liability for the seventeen years that the patent laws provide. To hold otherwise would unduly trespass upon the policies that underlie the patent law system. The restraint placed upon competition is temporally limited by the term of the patents, and must, in deference to the patent system, be tolerated throughout the duration of the patent grants.

The MUP Claim

The jury determined that the Machine Utilization Plan implemented by Xerox in 1968 coerced some of Xerox's high-volume machine customers to take Xerox's low-volume machines and that the effect of MUP was to tend to create a monopoly or to lessen substantially competition in a relevant market or submarket. These findings supported SCM's contention that MUP constituted an illegal tying arrangement in violation of § 3 of the Clayton Act, 15 U.S.C. § 14 (1976). The jury additionally concluded that MUP was utilized by Xerox to foreclose competition or to gain a substantial competitive advantage. This finding translated into a § 2 violation, since the jury also determined that Xerox possessed monopoly power in 1969. *See generally United States* v. *Griffith, supra,* 334 U.S. at 107. Judge Newman ruled, however, that notwithstanding the jury's findings concerning the substantive aspects of SCM's MUP claim, SCM had failed to demonstrate a rational, causal connection between the profits lost by SCM and MUP.

In *Bigelow* v. *RKO Radio Pictures, Inc.,* 327 U.S. 251, 264 (1946), the Supreme Court set forth the standard to be satisfied to sustain an award of treble damages in a private antitrust suit:

> [I]n the absence of more precise proof, the jury [can] conclude as a matter of just and reasonable inference from the proof of defendants' wrongful acts and their tendency to injure plaintiffs' business, and from the evidence of the decline in prices, profits and values, not shown to be attributable to other causes, that defendants' wrongful acts had caused damage to the plaintiffs.

We agree that a liberal rule of damages must be applied in antitrust cases both to encourage private enforcement of the antitrust laws and to insure that the defendant bears "the risk of the uncertainty which his own wrong has created." *Id.* at 265; *see Jack Kahn Music Co.* v. *Baldwin Piano & Organ Co.*, 604 F.2d 755, 763 (2d Cir. 1979). But the *Bigelow* Court carefully pointed out that "even where the defendant by his own wrong has prevented a more precise computation, the jury may not render a verdict based on speculation or guesswork." *Bigelow* v. *RKO Radio Pictures, Inc., supra,* 327 U.S. at 264. We are of the opinion that even under the liberal *Bigelow* rule, SCM failed to carry its burden.

SCM calculated its damages caused by MUP based on the cancellation rates of Xerox's low-volume copiers before and after the MUP marketing program was implemented. SCM's theory is that if MUP had the effect of decreasing the cancellation rates of its low-volume copiers, then it can be inferred that MUP coerced some customers into retaining unwanted Xerox low-volume copiers instead of using low-volume coated-paper copiers manufactured by Xerox's competitors. SCM offered evidence of the percentage of Xerox low-volume machine customers who cancelled and were acquired by SCM prior to MUP and the drop in the overall Xerox low-volume machine cancellation rate and the concomitant loss of dissatisfied Xerox customers after MUP. SCM contended that it would have received the same share of the additional cancellations that it received of actual cancellations after MUP. Xerox, however, revealed a gaping hole in SCM's damage theory: the cancellation rates of three out of four of Xerox's low-volume machines actually increased following MUP. Additionally, with respect to the only Xerox low-volume machine whose cancellation rate

actually fell following MUP, the 813, Xerox pointed out that SCM calculated its lost placements on the basis of the entire 813 population rather than on the substantially smaller population of 813s on MUP. While the latter deficiency would merely require that the damages be recalculated on remand, the insufficient showing of causality between MUP and the decline in 813 cancellations leads us to affirm Judge Newman's conclusion below. While an antitrust plaintiff may, in a proper case, recover damages based upon evidence of lost profits "not shown to be attributable to other causes," *Bigelow* v. *RKO Radio Pictures, Inc., supra,* 327 U.S. at 264, the plaintiff must support by more than mere speculation its allegation of causality between the defendant's acts and the injury it incurred. SCM's own expert witness conceded at trial that he could not explain the fact that the cancellation rates of three out of four of Xerox's low-volume machines increased following MUP. In light of these facts we agree with Judge Newman's decision that it would be irrational to attribute the decline in the cancellation rate of the 813 to MUP.

Conclusion

The controlling question of law certified by Judge Newman below and accepted by this Court for interlocutory review concerning SCM's 1969 exclusion claim is answered in the negative. Based on the evidence presented we are convinced that none of Xerox's patent-related conduct contributed to any antitrust violation and that, therefore, SCM is not entitled to recover any monetary damages in connection with that claim.

With respect to SCM's MUP claim, we affirm Judge Newman's decision denying damage recovery on the

ground that insufficient evidence was offered by SCM to support the jury's finding that the lost profits claimed by SCM were caused by MUP.

This action is remanded to the district court for further proceedings consistent with this opinion.

WATERMAN, *Circuit Judge*:

I concur in the result.

Appendix B

Opinion of the District Court

SCM CORPORATION

v.

XEROX CORPORATION.

Civ. No. 15807.

United States District Court,
D. Connecticut.

Dec. 29, 1978.

MEMORANDUM OF DECISION

[463 F. Supp. 983]

NEWMAN, District Judge.

[985] This case presents important issues concerning the relationship between the patent laws and the antitrust laws. The issues arise in the procedural context of a private treble damage action brought pursuant to § 4 of the Clayton Act, 15 U.S.C. § 15, and tried to a jury. The factual context is the manufacturing and marketing of office photocopy machines—machines capable of automatically creating copies of an original document.

Plaintiff is SCM Corporation,[1] a conglomerate with annual revenues in excess of $1 billion. During the 1960's SCM was among the world's leading producers of coated paper copiers—machines capable of automatically creating copies of an original document on specially treated paper coated with zinc oxide. In the mid 1970's SCM marketed a plain paper copier, the 6740, which it purchased from the Van Dyk Corporation,

1 "SCM" is derived from the initials of the Smith-Corona Company, manufacturer of typewriters, and the Marchant Company, manufacturer of calculators, who merged to form the plaintiff corporation.

and currently markets two models of a plain paper copier manufactured by a Japanese company.

Defendant is Xerox Corporation,[2] a business machines company with annual revenues in excess of $4 billion. In 1960 Xerox brought to market the world's first automatic plain paper copier, the Xerox 914. For the next ten years Xerox and its family of companies were the world's only producers of plain paper copiers. While a competitive plain paper copier was introduced by IBM in 1970 and by numerous manufacturers thereafter, Xerox continues today to be the world leader in plain paper copiers.

The complaint, filed July 31, 1973, alleged that Xerox, acting unilaterally and in concert with other companies, excluded SCM from the field of plain paper copying, causing damages claimed at trial to exceed $500 million. The complaint alleged violations of §§ 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2, and § 7 of the Clayton Act, 15 U.S.C. § 18. An amended complaint added allegations of injury to SCM's copier business by Xerox marketing practices in violation of § 2 of the Sherman Act and § 3 of the Clayton Act, 15 U.S.C. § 14. In addition to trebled damages, far-reaching equitable relief was sought.[3] A preliminary **[986]** injunction was sought and denied. Pre-trial Ruling No. 6, *aff'd, SCM Corp. v. Xerox Corp.*, 507 F.2d 358 (2d Cir. 1974).

After extensive pre-trial preparations, see *SCM Corp. v. Xerox Corp.*, 77 F.R.D. 10 (D.Conn.1977), jury trial[4] began on

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2 "Xerox" is derived from the word "xerography"—dry writing—an invented name for the process of reproducing images by an electrophotographic process.

3 Other issues raised by the pleadings concerned an SCM claim of invalidity of one Xerox patent, and Xerox claims of patent infringement by SCM. These patent validity and infringement issues have been severed. For purposes of all claims put to the jury, SCM assumed the validity of every Xerox patent.

4 The jury, requested by Xerox, was empaneled under an agreed upon procedure whereby 14 persons were selected, none was designated as

June 20, 1977. Fourteen months later, on August 16, 1978, the jury was discharged after returning the last of 54 verdicts. Evidence was presented during 215 days, summations consumed 4½ days, and the jury deliberated for 38 days. The trial transcript totals 46,802 pages.

I. *Basic Claims and Verdicts*

SCM Damage Claims.

SCM presented damage claims in five broad categories: excluding SCM from plain paper copying beginning in 1964; excluding SCM from plain paper copying beginning in 1969; denying SCM the opportunity to market in the United States the Fuji-Xerox 2200 copier manufactured in Japan; impairing SCM's marketing of coated paper copiers by use of two pricing plans known as MUP and XCP; and impairing SCM's marketing of 6740 plain paper copiers by various practices.

The 1964 and 1969 exclusion claims were the heart of SCM's case. SCM alleged, alternatively, that beginning in 1964 or 1969 and continuing until the present, Xerox monopolized the plain paper copier industry and excluded SCM from entering the field. SCM sought the damages it would have avoided if Xerox had not refused SCM's requests in 1964 and 1969 for plain paper copier patent licenses. The 1964 and 1969 exclusion claims each contained three elements of damages: (a) the financial benefits SCM would have achieved, which included net profits through 1976 and net going concern value as of the end of 1976; (b) the actual losses SCM incurred in the placement of coated paper copiers; and (c) the actual losses SCM

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an alternate, and all remaining at the conclusion of the trial were permitted to deliberate provided at least six remained. Attrition reduced the final jury to nine members.

For an interesting analysis of the composition of the jury and how the demographic characteristics of the final jury was shaped by the selection process, *see* Comment, "Protracted Commercial Litigation and the Seventh Amendment," 10 Conn.L.Rev. 775 (1978).

incurred in the placement of the 6740 plain paper copiers. It was SCM's theory that had it not been excluded from entering into plain paper copying in 1964 and 1969, it would not only have made money, but would have avoided the losses it suffered in its coated paper copier business and in the placement of 6740's.

The presentation of both a 1964 and a 1969 exclusion claim stemmed from a dispute concerning application of the statute of limitations. SCM initially sought patent licenses from Xerox in 1964[5] and annually thereafter at least through 1969. The complaint was filed July 31, 1973. Normally the applicable four-year statute of limitations would apply to bar any cause of action accruing prior to July 31, 1969. 15 U.S.C. § 15b. However, SCM alleged, and Xerox did not dispute, that the limitations period was extended back to January 16, 1969, because (1) on that date the Federal Trade Commission filed a complaint against Xerox alleging monopolization of the plain paper copying field, and (2) the institution of proceedings by the United States suspends the running of the statute of limitations "in respect of every private right of action . . . based in whole or in part on any matter complained of in said proceeding. . . ." 15 U.S.C. § 16(b). Actions initiated by the FTC toll the four-year limitations period. *Minnesota Mining & Manufacturing Co. v. New Jersey*, 381 U.S. 311, 85 S.Ct. 1473, 14 L.Ed.2d 405 (1965). Xerox also raised no **[987]** issue concerning the first two weeks of January, 1969; so the parties were in agreement that SCM's 1973 complaint was timely as to causes of action accruing on or after January 1, 1969.[6] The

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5 There was a substantial dispute as to whether the SCM license request in 1964 was serious and whether SCM then had the intention, preparedness, and capability to enter the plain paper copying field, an issue ultimately resolved against SCM by the jury (Question 22). But there was no dispute that a license request was made in 1964.

6 Though Xerox agreed the complaint was timely with respect to the 1969 exclusion claim as against the defense of limitations, it presented a further defense that SCM's failure to sue at an earlier time rendered all exclusion damages barred under the doctrine of avoidable consequences. *See* note 16, *infra*.

1969 exclusion claim therefore sought damages SCM alleged it had suffered by being denied patent licenses on or about January 1, 1969.

As an alternative to the 1969 exclusion claim, SCM presented a 1964 exclusion claim for damages allegedly suffered by being denied patent licenses on or about January 1, 1964. SCM contended that the four-year limitations period, as extended back to January 16, 1969, by the FTC complaint, did not bar this claim because, under the principles of *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 401 U.S. 321, 91 S.Ct. 1247, 28 L.Ed.2d 552 (1971), the damages flowing from the 1964 license denial were not ascertainable until after January 16, 1969, and the cause of action based on the 1964 license denial had therefore not accrued until after January 16, 1969.[7]

With respect to both the 1964 and 1969 exclusion claims, SCM estimated its lost profits by presenting elaborate economic models as to what would have happened if it had secured from Xerox plain paper copier licenses on or about January 1 of 1964 and 1969.[8] SCM estimated the types of

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7 SCM also contended that the tolling provisions of 15 U.S.C. § 16(b) extended the limitations period back to 1965, when the FTC began its investigation of Xerox. The Court concluded that the filing of the FTC complaint was the earliest relevant date for purposes of § 16(b). *Cf. Greyhound Corp. v. Mt. Hood Stages, Inc.*, 437 U.S. 322, 98 S.Ct. 2370, 57 L.Ed.2d 239 (1978).

8 SCM also contended that it was not limited to exclusion claims measured from either January 1, 1964, or January 1, 1969, but could also seek damages starting at any intermediate point that the jury found warranted by the evidence. This contention became significant when the jury rejected the 1964 claim, leaving only the 1969 claim in issue. The Court ruled that SCM had given the jury evidence of damages flowing from the 1964 license denial and the 1969 license denial, and had failed to present any evidence from which the jury could reasonably estimate what the damages would have been had SCM obtained patent licenses at some intermediate point. There was no data or opinion evidence that would permit a pro rata award of damages for whatever portion of the 1964 exclusion claim the jury found to be established. SCM's estimates of what would have occurred

(footnote continued on next page)

machines it would have manufactured, the revenues it would have realized, and the costs it would have incurred. Since the 1964 exclusion claim estimated placements and profits over a longer period of time than the period estimated for the 1969 claim, the 1964 damage claim was considerably higher. SCM sought $507 million for the 1964 exclusion claim and $100 million for the 1969 exclusion claim. SCM also sought $12 million for the Fuji-Xerox 2200 claim, $15 million for the MUP and XCP marketing claims, and $4 million for the 6740 marketing claim. SCM also sought trebling of all sums recovered.

Structure of the Trial.

The presentation of evidence was divided into three stages. The first stage, which consumed the bulk of the trial, concerned all issues of antitrust violation and the lost profits component of the 1964 and 1969 exclusion damage claims.[9]

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if it had obtained licenses in 1964 or 1969 differed in fundamental respects. SCM estimated the production of entirely different machines, different market shares, different prices, and different costs. Whether or not the 1964 and 1969 damage estimates were sufficiently non-speculative to permit a damage award, any estimate of damages for a period beginning at an intermediate point would have been wholly speculative.

9 The Court permitted evidence of SCM's claimed lost profits to be presented in what was generally the liability phase of the trial because of Xerox's contention concerning SCM's intention to enter plain paper copying. Xerox maintained that SCM did not intend to enter plain paper copying in either 1964 or 1969 and offered to support this contention with evidence that if SCM had entered the field at either date, SCM would have suffered losses. Since the prospect of losses was relevant in determining whether SCM had the requisite intent, the jury, considering the existence of intent, was entitled to hear the parties' conflicting claims as to whether SCM would have made profits or suffered losses. All the evidence available at the end of 1976 and offered to show whether entry in 1964 or 1969 would actually have produced profits would not have been available in 1964 or 1969 to estimate prospectively the likelihood of profits. However, there was substantial overlap between the bases for estimates available to be

The second [988] stage, consuming three days of evidence, concerned the actual loss components (for both coated and plain paper) of the 1969 exclusion damage claim,[10] plus the damage claims based on marketing practices.[11] The third stage, requiring only one day of evidence, concerned the net going concern value component of the 1969 exclusion damage claim.[12]

The Court elected to submit to the jury a large number of interrogatories. This was done, over the plaintiff's objection, for two reasons. First, the sheer volume and complexity of the

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made prospectively in 1964 and 1969 and for estimates to be made retrospectively in 1976. Therefore, Xerox was given an opportunity to prove that losses would have occurred, so that it could contend that the prospect of such losses would have deterred SCM in 1969 from entering plain paper copying if licenses were available.

10 SCM claimed $40.5 million for actual losses.

11 Since the jury at the end of the first stage rejected SCM's claim concerning the Fuji-Xerox 2200 and the 6740 marketing claim, no evidence was presented concerning the amount of damages on these claims. The jury's findings in favor of SCM concerning the MUP and XCP pricing claims led to the presentation of damage evidence on these claims. In addition, the Court concluded, contrary to the position taken when the first stage was concluded, to permit the jury to consider evidence of the component of SCM's 1969 exclusion claim concerning actual losses in the placement of 6740's. This is not the 6740 marketing claim rejected by the jury in the first stage. That claim concerned Xerox practices alleged to impair SCM's ability to place 6740's. The 6740 actual loss claim was that if SCM had been granted plain paper copier patent licenses in 1969, it would not have embarked on the 6740 program at all in the 1970's and thereby avoided all the actual losses it sustained in that venture.

12 SCM claimed $48.2 million for loss of net going concern value. The Court separated evidence of the net going concern value damages into a third stage of the trial to avoid the risk of prejudice to Xerox when the jury considered the amount of lost profits under the 1969 exclusion claim. Since the net going concern value claim was of exceedingly doubtful validity, it seemed advisable to avoid the risk that the jury might assess that claim and the lost profits claim together and reach a compromise that might be based on an invalid theory.

evidence necessitated focusing the jury's attention on specific issues to be sure that orderly decision-making occurred. Second, the use of numerous interrogatories seemed to offer some prospect of minimizing the risk of retrial. That objective assumed special importance in this case because of the extraordinary length of the trial and the presence of numerous novel or at least unsettled issues of law.[13] Maximizing jury decision-making remained a principal objective of the Court throughout the trial in order to provide opportunity for particularized appellate review. The interrogatories answered by the jury are set forth in full in Appendix A. Since the 1964 and 1969 exclusion claims raised numerous pairs of identical issues, differing only as to years, many of the questions concerning the 1964 claim were repeated for the 1969 claim, and given the same number but with the addition of an "a."

As with the evidence, the jury's decision-making was divided into stages, but, for reasons detailed in the margin[14] the

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13 *See Vandercook & Son, Inc. v. Thorpe,* 344 F.2d 930, 931 n. 2 (5th Cir. 1965), indicating "the desirability of using special interrogatories under Fed.R.Civ.P. 49(a) with a general charge where distinctive, or doubtful (or both), theories are at issue, or where the law is in a state of flux." *See generally,* Brown, "Federal Special Verdicts: The Doubt Eliminator," 44 F.R.D. 338 (1967).

14 Three differences should be noted. First, though the evidence concerning the amount of lost profits in the 1969 exclusion claim was presented in the first stage, the decision-making as to quantification of this component of the 1969 exclusion claim occurred at the end of the second stage. (Questions 50 and 51). *See* footnote 9, *supra.* Second, though evidence of proximate cause was presented in the first stage, decision-making on several proximate cause issues was deferred until the second stage so that the jury would have evidence of the amount of damage when deciding whether any damages were proximately caused by wrongful conduct. Proximate cause issues submitted to the jury in the second stage concerned the MUP and XCP pricing plans (Questions 52, 54, and 57) and the 6740 actual loss component of the 1969 exclusion claim (Question 59). Third, though evidence concerning the XCP pricing plan was presented in the first stage, the violation questions submitted to the jury at the end of the first stage concerning the pricing plan issues (Questions 43–47) and the jury's responses left

divi-[989]sion of jury decision-making differed slightly from the division of evidence. Initially 76 questions were submitted to the jury at the conclusion of the first stage of evidence. The jury was instructed first to answer the four questions concerning the relevant product markets (Questions 1, 1a, 2, and 2a) and report their verdicts on these issues before proceeding further. The jury's verdicts on the product market issues, agreeing with SCM's contentions as of 1969, but not as of 1964, prompted the Court to withdraw from the jury's consideration nine questions dealing with the 1964 exclusion claim. Since some of the remaining questions were to be answered only if a "yes" answer were given to preceding questions, the jury answered 44 questions at the end of the first stage. One aspect of the jury's responses, discussed at pages 1009-1010, *infra,* prompted the Court to submit two additional questions (Questions 24a-1 and 27a-1). In the second stage, the jury was given 11 questions, concerning some issues of proximate cause and quantification of damages. Because of some negative answers, the jury answered seven questions of this group. In the third stage only a single question was asked and answered. This concerned quantification of the net going concern value component of the 1969 exclusion claim.

Jury's Verdicts on SCM's Damage Claims.

The jury's verdicts were in favor of SCM on some parts of two of the five damage claims, but also in favor of Xerox on one of its defense contentions. As to the 1964 exclusion claim, the jury rejected SCM's contentions concerning the relevant market or sub-market as of 1964. (Questions 1 and 2). SCM had contended that there existed by 1964 a relevant market consisting of "convenience office copiers" using both plain and coated paper and a relevant sub-market consisting of "convenience office copiers" using only plain paper. "Convenience

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in doubt the jury's view of the XCP plan. Therefore, a separate question as to whether the XCP plan was a law violation was submitted at the end of the second stage (Question 56).

office copiers" meant copying machines suitable for automatic use in offices but not including spirit duplicators, mimeograph machines, or offset machines. Xerox defined the relevant market to include spirit, mimeo, and offset, with offset included to the extent that the machines were used for run lengths of less than 200 copies from an original.

Despite the jury's rejection of SCM's market definitions as of 1964, the jury was asked several questions concerning other aspects of the 1964 claim.[15] The jury concluded that SCM had not proved that in 1964 it **[990]** had the intention, preparedness, and capability to enter into plain paper copying. (Ques-

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15 The substantive questions concerning some aspects of the 1964 exclusion claim were submitted to the jury, notwithstanding the jury's rejection of SCM's 1964 relevant market contentions, for two reasons. First, additional fact-finding by the jury offered the prospect of determining whether necessary elements of the 1964 exclusion claim were established wholly apart from the relevant market contentions. As it happened, the negative answer concerning SCM's intention, preparedness, and capability to enter plain paper copying in 1964 eliminated the 1964 claim, regardless of the relevant market issues and regardless of any SCM contention concerning the correctness of the charge on issues of violation. Second, this course created the opportunity to secure additional jury fact-finding in the event a reviewing court were to disagree with the relevant market findings as a matter of law. Had the jury found in favor of SCM on the intention element and also on the questions to be answered if intention had been proven, the Court would then have had the opportunity, after all other fact-finding was completed (when no prejudice to other fact-finding could be claimed), to ask the jury to answer the withdrawn 1964 violation questions on the assumption that the relevant market as claimed by SCM existed in 1964. The appropriateness of what amounts to hypothetical jury fact-finding is of course open to question, but it is not without some precedent, *see Foster v. Maldonado*, 433 F.2d 348 (3d Cir. 1970) (jury told to assess wrongful death damages under two alternative rules of law where choice of law rule is uncertain); *United States v. 371.94 Acres of Land*, 431 F.2d 975, 978 n. 3 (6th Cir. 1970) (jury returned alternative verdicts on land valuations using different factual assumptions), and would certainly have been worth the additional few days of jury time in order to try to avoid retrial in a case of such extended length.

tion 22). That negative answer totally rejected the 1964 exclusion claim, regardless of any claim SCM may have that a relevant market or sub-market existed by 1964 as a matter of law.

As to the 1969 exclusion claim, the jury upheld SCM's relevant market contentions as of 1969 (Questions 1a and 2a), found violations of § 2 of the Sherman Act (Question 4a), § 1 of the Sherman Act (Question 15a), and § 7 of the Clayton Act (Questions 20 and 21a), and found that Xerox conduct in violation of the antitrust laws was a proximate cause of SCM's not entering into plain paper copying in 1969 (Questions 24a and 27a). As to the lost profit component of the 1969 exclusion claim, the jury concluded that SCM suffered damages of $11.5 million in cumulative lost profits from 1969 to 1976 (Question 50) and $25.6 million in loss of net going concern value as of the end of 1976 (Question 61). However, the jury also upheld Xerox's defense contention that SCM should reasonably have avoided all the 1969 exclusion claim damages by pursuing earlier litigation against Xerox (Question 34).[16] The jury re-

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16 Xerox made two contentions to the jury concerning its defense of avoidable consequences. First Xerox contended that SCM could reasonably have avoided all 1969 exclusion damages by litigating Xerox's right to maintain its patent portfolio unlicensed in 1963. At that time, Xerox had sued SCM for patent infringement with respect to SCM's coated paper copiers, and SCM had counterclaimed for a declaration that Xerox's patents were unenforceable by reason of antitrust law violations, substantially the same contention urged in this suit. The 1963 lawsuit was settled without prejudice with SCM taking licenses for coated paper copier applications. Xerox urged the jury to find in this suit that if its patent portfolio was unenforceable because of antitrust violations as SCM claimed, SCM could have avoided all its exclusion claim damages by continuing the 1963 suit or initiating a new suit in 1964. The jury's answer to Question 34 upheld this defense.

Xerox also contended that, if its conduct violated the antitrust laws and made its patents unenforceable, SCM could reasonably have avoided all exclusion damages by determining for itself that the Xerox patents were unenforceable and entering into plain paper copying with the confidence that Xerox infringement suits would be unsuccessful. The jury rejected this defense (Question 33).

jected the two components of the 1969 exclusion claim concerning SCM's actual losses in coated paper copying (Question 32a) and actual losses in the placement of 6740 plain paper copiers (Question 59), finding that SCM had not proved that these losses were proximately caused by SCM's exclusion from plain paper copying in 1969.

As to the MUP and XCP marketing claims, the jury found that MUP violated § 2 of the Sherman Act (Question 45) and § 3 of the Clayton Act (Questions 43 and 44), that the MUP pricing plan was a proximate cause of SCM's not placing some coated paper copiers (Question 52), and that SCM thereby suffered $230,874 of damages (Question 53). As to the Fuji-Xerox 2200 claim, the jury found that there had been no violation of § 1 of the Sherman Act as alleged by SCM (Question 38) and that SCM had not proved its intention, preparedness, and capability to market the 2200 (Question 41), thereby totally rejecting this claim. As to the 6740 marketing claim, the jury found no marketing practices in violation of § 2 of the Sherman Act affecting 6740 placements as alleged by SCM (Question 48), thereby totally rejecting this claim.

The issue currently before the Court is what money judgment, if any, should be entered upon the jury's verdicts.[17] The broad questions are whether in view of the verdicts, both those favoring SCM and those favoring Xerox, there is a lawful basis for SCM to recover $11.5 million in lost profits and $25.6 million in lost net going concern value on the 1969 exclusion claim and $230,874 in coated paper copier losses [991] on the MUP marketing claim, and whether any sums awarded are to be trebled. Consideration of these questions requires a detailed consideration of the evidence.

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17 The parties and the Court have agreed that consideration of any entitlement to equitable relief and to attorney's fees should be deferred until after appellate review of a judgment, entered pursuant to Fed.R.Civ.P. 54(b), adjudicating the claims for money damages.

II. *The Evidence*

Xerography.

In the 1930's Chester Carlson, working as a patent attorney, turned his inventive mind to the task of discovering a technique for copying documents that would be an improvement over photography and its variant, photostating. In a truly creative feat of invention, he conceived of the process of electrophotography, adapting the principles of electrostatics to the reproduction of images. What Carlson invented was a process, later named xerography, which, as ultimately perfected, consisted of several steps. First, an electrostatic charge is placed on a photoconductive surface, *i.e.*, a surface that will retain an electrical charge in the dark and lose it when exposed to light. After this charging step, the photoconductive surface is exposed by reflecting light against the image to be copied onto the photoconductive surface. The white portions of the image reflect the light, and these reflections discharge the electrostatic charges on the photoconductive surface at the points receiving light. The black portions of the image (typewriting on a document) do not reflect the light. The result is that electrostatic charges remain on the photoconductive surface in a pattern equivalent to the image to be copied. This pattern of invisible electrostatic charges is then developed by bringing particles of toner (the equivalent of ink in conventional printing) into contact with the photoconductive surface. The toner particles are given an electrostatic charge opposite to the charge of the photoconductive surface so that the particles cling to the surface wherever an electrostatic charge remains, thus forming a pattern of toner equivalent to the image to be copied. The surface on which the copied image is to appear, usually a sheet of plain paper, is then brought into contact with the photoconductive surface. An electric charge behind the paper, opposite to the charge of the toner particles, causes the particles to transfer to the paper, maintaining on the paper the same pattern they formed on the photoconductive surface. The toner particles are then fused to the paper by heat or pressure to fix them permanently on the surface of the paper, completing the creation of a copy of the original image.

The process just described is xerography in the reusable mode, that is, the photoconductive surface can be cleaned, and used over and over again for the cycle consisting of charging, exposing, developing, transferring, fusing, and cleaning. The process is to be contrasted with electrofax or zinc oxide copying, in which a sheet of paper coated with zinc oxide serves as the photoconductive surface. In this latter process, charging, exposing, developing, and fusing occur, but there is no transfer or cleaning. The image to be copied appears on the sheet of coated paper. Coated paper copying requires a less complicated and less expensive machine than plain paper copying, although the cost of supplies is higher, since coated paper costs more than plain paper. If the costs of machine and paper are considered together, customers pay more for making a single copy on plain paper than on coated paper, but the plain paper process becomes cheaper than coated paper when large quantities of copies are made.

The distinction between uses of xerography for plain and coated paper copying is important to understanding the issues in this case. From the time it introduced the world's first automatic plain paper xerographic copier in 1960 until 1970, when IBM brought out its competing plain paper copier, Xerox was the world's only maker of plain paper copiers. SCM was licensed by Xerox to use xerographic patents for coated paper copying, but was never granted licenses for plain paper copying. The exclusion claim damages in this suit are the damages SCM contends it would not have suffered had Xerox granted SCM plain paper copier patent licenses in 1969. Assessing the claim requires explanation of what happened to the xerographic process after its basic concept was originated by Carlson.

[992] Initially, it must be realized that Carlson had only a concept, albeit an extraordinary one. Using crude materials, he was able in 1938 to develop a barely readable image on a photoconductive surface. He thereby demonstrated the potential use of his concept, but it would be 22 years before an automatic machine would reduce his concept to practice suitable for convenient use in an office at the push of a button.

Carlson-Battelle Relationship.

Sharing the frustrations and initial fate of many inventors, Carlson made extensive efforts to interest business machine companies in the development of his invention. No commercial enterprise offered to invest any money. Ultimately Carlson stirred the interest of the Battelle Memorial Institute (Battelle) of Cleveland, Ohio, a non-profit research institute. In 1944 Carlson and Battelle concluded an agreement whereby Carlson designated as his agent for licensing the Battelle Development Corp., a wholly owned subsidiary of Battelle, and received the right to 40% of any royalties that Battelle might earn from licensing the patents. Later Carlson formally assigned his patents to Battelle, retaining the right to 40% of royalties.

Battelle-Xerox Relationship.

Battelle proceeded to work on the xerographic process, inventing many features that ultimately proved indispensable to the creation of an automatic machine. Initially Battelle fared no better than Carlson had in interesting any commercial enterprise to sponsor research in exchange for a license. In 1946 the Haloid Company of Rochester, N.Y., (as Xerox was then known) contacted Battelle and offered to negotiate an agreement. The result was not only a business relationship that was to launch one of America's foremost episodes of corporate success, but also a set of legal relationships that are central to SCM's claims in this case.

The first agreement between Battelle and Haloid (PX 103) was entered into in 1947. It provided that Battelle would license Haloid to use the Carlson patents and any new Battelle patents concerning electrophotography. The license covered equipment for the reproduction of documents, but excepted equipment designed to make more than 20 copies of an original. The license was described as non-exclusive and non-assignable. However, the agreement also specified circumstances under which Battelle would not license anyone else to use the patents for copying equipment, except for equipment designed to make more than 20 copies of an original. Haloid

agreed to pay Battelle an 8% royalty, with a modest minimum royalty provision, and also agreed to sponsor research at Battelle in the amount of $25,000 per year.

A second agreement (PX 268) was entered into in 1948. It changed the '47 agreement in several respects. The less-than-20-copy limitation was dropped, and Haloid's license covered virtually all applications of xerography. The license was exclusive, replacing the prior arrangement of a nonexclusive license that became exclusive under specified circumstances. Haloid obtained the right to sub-license and agreed to pay Battelle 62½% of all sub-license royalties. Haloid's royalty rate on its license from Battelle remained at 8%, though the minimum payment was increased. Haloid agreed to use diligent efforts to secure sub-licensees to engage in research, development, and commercialization of the licensed patents. The sub-licensing was to be on terms mutually agreeable to Haloid and Battelle. In the event of disputes concerning sub-licensing, Haloid was given final authority with respect to sub-licensing for document reproduction equipment, except for equipment designed to reproduce more than 20 copies of an original. Final authority on sub-licensing for more-than-20-copy reproduction equipment and for all other xerographic equipment was given to Battelle.

A third agreement (PX 187) was entered into in 1951. It eliminated all exclusions from Haloid's exclusive license, extended the territorial scope of the exclusive license world-wide, and further increased Haloid's **[993]** minimum royalty payment. Haloid's 8% royalty rate on its license and 62½% rate on sub-licenses were continued, as was the Haloid "diligent efforts" undertaking concerning sub-licensing.

A fourth agreement (PX 187) was entered into in 1956. Before considering its terms, the business context must be understood. In the 1950's work by Battelle and Xerox resulted in a machine capable of using the xerographic process to produce a copy of an original document. The machine was not automatic. It required the several steps of the xerographic process to be taken separately, over a span of about 4 minutes.

This machine, known as flat plate equipment, was not suitable for use in offices, but it did produce a copy of an original suitable for use as an offset master. The machine enjoyed modest commercial success. Subsequently there was developed the copy-flo machine, a device that used the xerographic process to copy images from microfilm onto a roll of plain paper. Though unable to make single or multiple copies of a single original document onto cut sheet paper, the copy-flo machine was successful as a device for customers who wanted microfilm "printed" more quickly and less expensively than by traditional photographic enlargement.

The advent of these commercially successful uses of xerography produced considerable income to Xerox (as the company was then called) and consequent royalty obligations from Xerox to Battelle. By 1956 40% of Xerox's profits were derived from xerographic products. The large and increasing revenues obtained by Xerox was one consideration that prompted Xerox to renegotiate its arrangement with Battelle.

Under the 1956 Xerox-Battelle agreement, Xerox in effect replaced the arrangement whereby it paid for an exclusive license in cash royalties with an arrangement whereby it acquired the patents in exchange for Xerox stock. Battelle thereby benefited from the success of xerography by the appreciation of Xerox stock instead of by receiving royalty income. The agreement reached this result in stages. Initially Xerox acquired the four basic Carlson patents and, in 1959, the rest of Battelle's xerographic patents. Xerox transferred to Battelle 55,000 shares of Xerox stock. Xerox's royalty obligation was considered paid up for 1956-1958, and for 1959-1965 was reduced to 3% on sales up to $20 million and 1% on sales above $20 million. After 1965 the royalty obligation ended. Xerox also acquired the right to receive all future xerographic patents and technology developed by Battelle as long as Xerox sponsored research at Battelle in an amount of at least $25,000 per year. By acquiring title to the Carlson and Battelle patents, Xerox extinguished whatever obligation it had under the prior agreements to seek sub-licensees.

Xerox's Foreign Relationships.

In view of SCM's claims based on concerted action by Xerox and others, it is necessary to sketch briefly Xerox's arrangement for foreign exploitation of xerography. In 1956, Xerox and the Rank Organisation of London formed a joint venture known as Rank-Xerox. Xerox assigned all foreign patents to Rank-Xerox, and Rank agreed to invest $600,000 in the new venture. Xerox and Rank each owned 50% of the stock of Rank-Xerox, though profits, after return of Rank's investments were divided ⅔ to Xerox and ⅓ to Rank. In 1959 Rank-Xerox and Fuji Photo Film of Tokyo formed a joint venture known as Fuji-Xerox to exploit xerography in Japan and other parts of the Far East. In 1969 Xerox purchased from Rank a 1% interest in Rank-Xerox, thereby becoming a 51% owner of Rank-Xerox and a 25.5% owner of Fuji-Xerox.

Success of Plain Paper Copiers.

With the introduction of the first automatic plain paper copier in 1960, Xerox enjoyed phenomenal commercial success. Revenues increased from $47 million in 1960, to $383 million in 1965, to $1.7 billion in 1970, and to more than $4 billion by 1975. Profits before taxes increased from $6 million in 1960, to more than $100 million in 1965, to more than $400 million in 1970, and to more than $800 million by 1975. For ten **[994]** years after 1960 Xerox and its affiliated companies manufactured the only plain paper copiers in the world. IBM entered the field in 1970, as did other companies in the early 1970's. All were sued by Xerox for patent infringement.

Federal Trade Commission Proceeding.

The final aspect of the factual context is the activity of the Federal Trade Commission. On January 12, 1969, the FTC filed a complaint against Xerox, charging monopolistic practices and seeking broad equitable relief including compulsory licensing of Xerox patents and termination of the relationships between Xerox and its affiliated companies. That proceeding terminated with the entry of a consent decree on July 29, 1975.

Under the decree (Court Ex. 135) Xerox offered non-exclusive licenses under any three of its plain paper copier patents at no royalty and under all of its patents at nominal royalties of ½ of 1% per patent up to a maximum of 1½% for any one product, plus the right to a grant-back of non-exclusive licenses on all xerographic patents of a licensee. Though initially excluded from the evidence in this case, the basic provisions of the FTC decree were ultimately admitted (Tr. 17,840-41) as a result of Xerox's contentions and lines of attack developed in cross-examination (Tr. 11,116-26).

III. *The 1969 Exclusion Claim*

SCM's Theories of Liability.

SCM grounded its exclusion claim on several theories of antitrust law violation. Though entertaining grave doubts as to several of SCM's theories, the Court concluded that a trial would be necessary in any event because of the allegation that Xerox entered into an agreement with Battelle, Rank, Rank-Xerox, Fuji, and Fuji-Xerox, or some of them, to refuse to license xerographic patents for plain paper uses to anyone other than the companies within the Xerox family of related companies. This claim appeared to state a classic concerted refusal to deal in violation of § 1 of the Sherman Act.[18] See

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18 The parties disputed whether a § 1 violation could be based on an agreement between entities in the relationship of the members of the Xerox family of companies. SCM contended that an agreement can violate § 1 if made by any two separate entities, regardless of whether they are actual or potential competitors and regardless of their inter-corporate affiliation. Reliance was placed on cases such as *Perma Life Mufflers, Inc. v. International Parts Corp.*, 392 U.S. 134, 141-42, 88 S.Ct. 1981, 20 L.Ed.2d 982 (1968), and *United States v. Yellow Cab Co.*, 332 U.S. 218, 67 S.Ct. 1560, 91 L.Ed. 2010 (1947). Xerox contended that a § 1 violation cannot exist in the absence of an agreement between parties who are actual or potential competitors and hold themselves out as such. Reliance was placed on *United States v. Citizens & Southern National Bank*, 422 U.S. 86, 116, 95 S.Ct. 2099, 45 L.Ed. 41 (1975), and *Beckman v. Walter Kidde & Co.*, 316 F.Supp. 1321 (E.D.N.Y.1970), *aff'd*, 451 F.2d 593 (2d Cir. 1971).

(footnote continued on next page)

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969). Whether the other theories were tenable legal theories were matters on which the parties sharply disagreed, but on which they could offer scarcely any authoritative precedent either way. Faced with the prospect of a long trial to adjudicate an entirely valid legal claim, the Court concluded that the jury should be given the task of doing whatever fact-finding might reasonably be required to afford this Court and any reviewing court the opportunity to rule on the validity of SCM's other theories of liability. Neither at the outset, nor in retrospect, did **[995]** it seem that very much additional evidence would be presented to support the additional theories beyond the proof relevant to a claim of concerted refusal to license. Moreover, SCM's marketing claims required jury consideration of whether Xerox had monopoly power in a relevant market, an issue that assured extensive presentation of evidence, regardless of whether the additional theories of liability for not licensing were tenable.

The SCM theories of liability with respect to the exclusion claim and the jury's responses on those they considered may be summarized as follows. First, as mentioned, SCM claimed a concerted refusal to deal with respect to plain paper copier patented and unpatented technology in violation of § 1. SCM

To provide a factual predicate for resolving the dispute as to whether parties to a § 1 agreement must be actual or potential competitors, the jury was asked questions about the competitive status of some of the entities involved. SCM made no claim that the entities were in actual competition; so the questions asked whether the entities were potential competitors as of certain pertinent dates. SCM made no claim that Battelle was a potential competitor of Xerox's. The jury concluded that Xerox and the Rank Organisation were not potential competitors in 1956 when Rank-Xerox was formed (Question 12), that Fuji Photo Film was a potential competitor of either Xerox or Rank-Xerox in 1960 when Fuji-Xerox was formed (Question 13), and that Xerox, Rank-Xerox, and Fuji-Xerox were not potential competitors in either 1964 or 1969, when SCM claimed concerted license denials (Questions 14 and 14a).

contended that two agreements existed among Xerox and the members of its family of companies: an agreement to exclude other companies from the manufacturing and marketing of plain paper copiers throughout the world, and an agreement to deny other companies licenses to use plain paper copier patents throughout the world. The jury found that SCM had not proved the existence of either agreement as of 1964 or 1969.[19] (Questions 18, 16, 18a, and 16a).

SCM also contended that Xerox possessed monopoly power in a relevant market and sub-market and had willfully acquired or maintained such power in violation of § 2 of the Sherman Act. SCM urged the Court to charge the jury that a company that willfully acquires or maintains monopoly power is liable for damages when it refuses to license its patents. (SCM request to charge No. § 2-64). The Court submitted to the jury questions concerning the elements of a § 2 violation, but declined to instruct as requested concerning SCM's view of the consequence of a § 2 violation, believing that the theory, if

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19 SCM contended that the § 1 finding of no agreement to exclude others from plain paper copying (Questions 18 and 18a) was inconsistent with the § 2 finding that as of 1969 there existed a conspiracy among Xerox, the Rank Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox to acquire or maintain monopoly power in the convenience office copier market and plain paper copier sub-market (Question 9a). SCM urged that since the power to exclude is a test of monopoly power, the conspiracy finding necessarily meant that the Xerox companies agreed to acquire or maintain the power to exclude, which, SCM contended, was the equivalent of agreeing to exclude. Xerox replied that no inconsistency necessarily existed, in light of Xerox's argument to the jury. Xerox had contended primarily that there was no conspiracy to acquire or maintain monopoly power, but had also urged, alternatively, that if such a conspiracy existed, it was limited to an agreement to allocate world-wide territories among the Xerox companies and thereby exclude only the Xerox companies from specified territories of the world. If the jury based its conspiracy finding on this aspect of the companies' arrangement, Xerox contended, the finding did not indicate an agreement to exclude all others from plain paper copying. (Tr. 44,631-36). The Court declined to find that the verdicts were inconsistent. (Tr. 44,645-46).

valid, could be supported by subsidiary findings without its explicit submission to the jury. The jury found that in 1969, but not in 1964, there existed a relevant market, as alleged by SCM, consisting of convenience office copiers using both plain and coated paper, and a relevant sub-market, as alleged by SCM, consisting of convenience office copiers using only plain paper. (Questions 1, 1a, 2, and 2a). The jury also found that as of 1969 Xerox had monopoly power in the relevant market and in the relevant sub-market. (Question 3a). Xerox conceded that if there was a relevant plain paper sub-market, which it disputed, its 100% share gave it monopoly power. The jury also found that as of 1969 Xerox willfully acquired or maintained monopoly power in both the convenience office copier market and the plain paper copier sub-market (Question 4a), thereby finding all the elements of actual monopolization in violation of § 2.[20]

[996] SCM also alleged violations of § 1 of the Sherman Act and § 7 of the Clayton Act, based on the 1956 agreement between Xerox and Battelle. While SCM alleged that numerous other Xerox agreements and acquisitions violated §§ 1 and 7, and that these violations showed that Xerox's monopoly power was willfully acquired or maintained, it was the 1956 Battelle agreement on which SCM based a specific claim of injury proximately caused by violations of §§ 1 and 7. But for that agreement, SCM contended, it would have obtained plain paper copier patent licenses "effected by Battelle," SCM Exclusion Claim Br. 7, presumably on the theory that Battelle would have insisted that Xerox sub-license under the exclusive licenses Xerox already held. The jury found that as of 1964 and 1969 the 1956 Xerox-Battelle agreement was an unreason-

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20 SCM also contended that Xerox violated § 2 by attempting to monopolize and conspiring to monopolize. The jury found that Xerox was a member of a conspiracy to monopolize the relevant markets as of 1969 (Question 9a), but rejected SCM's contention that Xerox had the specific intent to acquire or maintain monopoly power (Questions 7a and 10a), thereby rejecting a necessary element of both the attempt and conspiracy violations of § 2.

able restraint of trade. (Questions 15 and 15a). With respect to the § 7 claims, SCM alleged that Xerox's acquisition of patents from Battelle in 1956 had the probable effect of substantially lessening competition or tending to create a monopoly in both the convenience office copier market and the plain paper copier sub-market. The jury agreed. (Question 20). SCM also contended that in both 1964 and 1969 the probable effect of Xerox's continued holding of patents acquired pursuant to the 1956 Xerox-Battelle agreement was substantially to lessen competition or tend to create a monopoly in the convenience office copier market and the plain paper copier sub-market. The jury agreed as of both dates. (Questions 21 and 21a).

SCM also alleged that liability could be predicated upon § 2 of the Sherman Act on the theory that plain paper copiers were an essential product, and a company with monopoly power with respect to such a product is obligated to afford other manufacturers an opportunity to make and market the product. Reliance was placed on cases such as *Otter Tail Power Co. v. United States,* 410 U.S. 366, 93 S.Ct. 1022, 35 L.Ed.2d 359 (1973); *United States v. Terminal Railroad Ass'n,* 224 U.S. 383, 32 S.Ct. 507, 56 L.Ed. 810 (1912); *Hecht v. Pro-Football, Inc.,* 187 U.S.App.D.C. 73, 570 F.2d 982 (1977); *Gamco v. Providence Fruit & Produce Bldg., Inc.,* 194 F.2d 484 (1st Cir. 1952). The Court declined to submit this theory to the jury.

Since SCM's 1969 exclusion claim is a claim for the damages SCM suffered because Xerox did not grant SCM plain paper copier patent licenses in January, 1969, one might reasonably expect the legal issues to be limited to whether Xerox had a duty to license. While SCM contends Xerox did have such a duty, its primary position is that a damage award is proper, based on the jury's verdicts, wholly apart from a Xerox duty to license. As SCM sees it, "[i]t is irrelevant whether Xerox's refusal to license was an illegal act or whether Xerox had a duty under the antitrust laws to license the acquired patents to others." (SCM Exclusion Claim Br. 7). In SCM's view it has been excluded from plain paper copying, and this "exclusion" is not just a refusal to license.

Relationship Between Patent and Antitrust Laws.

Before considering the validity of SCM's theories concerning the 1969 exclusion claim, a preliminary look is appropriate at the relationship between the antitrust laws and the patent laws. Ever since the King's Bench considered a patent-antitrust conflict in 1602 in the first reported case on the subject,[21] the issues arising in this field have yielded few clear or satisfying answers.[22]

Economic arguments can be made that these statutes have a common goal of maximizing wealth by facilitating the production of what consumers want at the lowest cost. See W. Bowman, *Patent and Anti-* **[997]** *trust Law* 1 (1973). Whatever their economic congruency, there can be little doubt these two sets of laws are juridically divergent. The antitrust laws condemn monopoly, and "the very object" of the patent laws "is monopoly." *Bement v. National Harrow Co.*, 186 U.S. 70, 91, 22 S.Ct. 747, 46 L.Ed. 1058 (1902). The patent monopoly is an "exception to the general rule against monopolies," *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816, 65 S.Ct. 993, 998, 89 L.Ed. 1381 (1945).

Of course the holder of patent rights is not immune from the antitrust laws as countless cases illustrate. *E. g., United States v. Singer Mfg. Co.*, 374 U.S. 174, 83 S.Ct. 1773, 10 L.Ed.2d 832 (1963); *United States v. New Wrinkle, Inc.*, 342 U.S. 371, 72 S.Ct. 350, 96 L.Ed. 417 (1952); *United States v. Line Material Co.*, 333 U.S. 287, 68 S.Ct. 550, 92 L.Ed. 701 (1948). And it is equally clear that a patent is a "species of property," *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 643, 67 S.Ct. 610, 91 L.Ed. 563 (1947), and that its

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21 *Darcy v. Allein*, 77 Eng.Rep. 1260 (K.B. 1602).

22 As Prof. Stedman has observed, "Few areas of the law can match the patent-antitrust issue in terms of the spate of questions that have been posed and the inconclusiveness of the answers that have been given." Stedman, "Patents and Antitrust—The Impact of Varying Legal Doctrines," 1973 Utah L.Rev. 588.

use, like that of other property, can violate the antitrust laws. *E. g., United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 77 S.Ct. 490, 1 L.Ed.2d 465 (1957); *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944). But a patent is not just like any other type of property. The holder of an ordinary chattel can normally enjoy its exclusive use but he has no protection whatever from any other person who discovers or creates an identical item and uses that item for economic gain. However, the holder of a patent, in addition to the usual incidents of property ownership, enjoys for the 17-year term of his statutory monopoly, the exclusive power to prevent anyone else from using the patented invention for economic gain, even a person who discovered or created the invention entirely independent of the patent owner. The patent laws grant this broad exclusionary power for a limited time to provide an incentive for research investment[23] and to secure the public benefit of full disclosure of the patented invention.

This broad power to exclude, broader than the power enjoyed by the owner of ordinary property, is what requires an accommodation between the patent laws and the antitrust laws. The monopoly power condemned by § 2 of the Sherman Act is the power to exclude competition from a relevant market, *United States v. DuPont & Co.* (cellophane), 351 U.S. 377, 391, 76 S.Ct. 994, 100 L.Ed. 1264 (1956), yet the power to exclude is precisely the power granted by the patent laws. And the patent laws place no limitation on the granted power to exclude even when the patented invention is used in a product that creates and defines its own relevant market. In determining when use of a patent can violate the antitrust laws, courts obviously cannot focus on the patent owner's power to exclude without ignoring a core concept of the patent laws.

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23 As Judge Frank has observed, the protection offered by the patent laws may really be needed as an incentive to the investor, not the inventor. *Picard v. United Aircraft Corp.*, 128 F.2d 632, 642 (2d Cir. 1942) (concurring opinion).

The cases upholding antitrust violations by holders of valid patents,[24] despite the insulation of the patent laws, have generally done so upon a finding that the patent holder misused the patent to extend his monopoly beyond the statutory grant, *e. g., Mercoid Corp. v. Mid-Continent Investment Co., supra* (requiring purchase of unpatented product to obtain patented product), or that the patent holder abandoned his freedom to decide unilaterally whether or not to permit use of his patented invention and instead agreed with others not to permit licensing at all or do so only on restricted terms, *e. g., Zenith Radio Corp. v. Hazeltine Research, Inc., supra* (concerted refusal to license except on restricted terms). While normally not characterized as such, the con- **[998]** certed refusal to license cases may themselves be viewed as prohibitions against extension of the statutory patent monopoly: the patent laws give the patent owner the power to exclude, but once he makes an agreement with others not to license the patent, the patent monopoly has in a sense been extended because the power to exclude has now been given to those who derived no power from the patent itself.

Thus the patent misuse cases and the concerted refusal to license cases may be viewed as holding no more than that a patent holder violates the antitrust laws when he extends his patent monopoly, and conversely he is immune from antitrust liability when he does no more than maintain his patent monopoly. But other developments in the field indicate that the antitrust laws might limit a patent holder who does not seek to extend his patent monopoly either by techniques normally characterized as patent misuse or by a concerted refusal to license. The principal example is a requirement of prospective compulsory licensing to remedy the effects of an adjudicated antitrust violation, *United States v. United Shoe Machinery Corp.*, 110 F.Supp. 295 (D.Mass.1953), *aff'd*, 347 U.S. 521, 74 S.Ct. 699, 98 L.Ed. 910 (1954).

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24 This case raises no issue concerning antitrust violations based on anti-competitive uses of patents obtained by fraud upon the Patent Office. *See Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 86 S.Ct. 347, 15 L.Ed.2d 247 (1965).

Also of significance are the occasions when a company holding an accumulation of patents that dominate an industry has voluntarily agreed to license its patents in the face of an allegation of antitrust law violation. *E. g., United States v. International Business Machines Corp.,* 1956 CCH Trade Cases ¶ 68,245 (S.D.N.Y.1956); *United States v. Radio Corporation of America,* 1958 CCH Trade Cases ¶ 69,164 (S.D.N.Y.1958). Indeed, the evidence in this case disclosed that the prospect of one day being required to license its patents was fully apprehended by Xerox's leadership. In 1969 Xerox's president observed, "It's clear that we don't want to license until we have to . . .." (Tr. 9,573-74). Ultimately, in 1975, in the face of antitrust allegations brought by the Federal Trade Commission, Xerox did agree to a consent decree requiring patent licensing at nominal royalties.

Of course the IBM, RCA, and Xerox prospective licensing consent decrees are not adjudications of a duty to license, but they are strong indications of a reasonably held apprehension that an appropriate way to harmonize the prohibitions of the antitrust laws with the protections of the patent laws is to require prospective licensing of patents when a company's patent structure threatens undue maintenance of industry domination.

Of equal interest in assessing the extent of patent law protection is the absence of any reported decision in which a patent holder has been held liable to pay money damages, for a unilateral refusal to license patents, as compensation to a potential competitor for the profits that would have been earned if licensing had occurred. Just as the consent decrees do not establish an obligation to license prospectively, the absence of damage awards does not preclude retrospective liability for failure to license. However, both circumstances illuminate the context in which the issues arising under SCM's 1969 exclusion claim must be resolved. In particular, they indicate that the need to harmonize the purposes of the patent and antitrust laws may well require recognition that some patent-related conduct creates antitrust liability only for prospective equitable

relief, but not for treble damage remedies, at least in some circumstances.

Other approaches have been urged that result in a distinction allowing prospective equitable remedies while denying retrospective damage remedies. Xerox puts the argument on constitutional grounds, suggesting that even if prospective licensing were warranted, the imposition of damage liability for a unilateral refusal to license valid patents would be an "avulsive change" in the law, *Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, 392 U.S. 481, 499, 88 S.Ct. 2224, 20 L.Ed.2d 1231 (1968), of which there was no "fair warning." *Grayned v. City of Rockford*, 408 U.S. 104, 108, 92 S.Ct. 2294, 33 L.Ed.2d 222 (1972). *Hanover Shoe* found it unnecessary to consider the argument since the finding of violation was deter- **[999]** mined not to be "a sharp break in the line of earlier authority." 392 U.S. at 499, 88 S.Ct. at 2234. See also *Berkey Photo, Inc. v. Eastman Kodak Co.*, 457 F.Supp. 404, 436-40 (S.D.N.Y.1978).

A second approach achieves the distinction with respect to a plaintiff who has no share of the market from which he alleges exclusion. He may be denied a damage remedy because his damage estimate is too speculative even under the generous standards of *Bigelow v. RKO Radio Pictures*, 327 U.S. 251, 66 S.Ct. 574, 90 L.Ed. 652 (1946). See, *e. g.*, *Flintkote Co. v. Lysfjord*, 246 F.2d 368, 389-94 (9th Cir. 1957). That is apparently the approach favored by Profs. Areeda and Turner. *Antitrust Law: An Analysis of Antitrust Principles and Their Application* (1978) (hereafter *"Antitrust Law"*). Having emphasized the frequently speculative nature of damages claimed by a would-be market entrant, II *Antitrust Law, supra*, § 344c, they then consider only equitable relief as a remedy for § 2 violations involving unlawful exclusionary use of patents, *id.* at § 705h.[25]

25 *See also* Adelman, "Property Rights Theory and Patent-Antitrust: The Role of Compulsory Licensing," 52 N.Y.U.L.Rev. 977, 1005 (1977), considering only equitable relief to remedy patent-related anti-competitive conduct.

A third approach, explicitly espoused by Profs. Areeda and Turner, achieves the distinction with respect to the monopoly that results from market structure and economic performance, without any restrictive practices. Anxious to preserve § 2 coverage of that monopoly, they would permit the use of prospective equitable remedies to restore competition, at least at the instance of the government, while denying the availability of damage remedies as unfairly punitive in the absence of wrongdoing. II *Antitrust Law, supra,* § 311c.

This Court agrees with their observation that "the fact that a situation is appropriate for equitable relief under the antitrust laws is not automatically or necessarily a warrant either for criminal punishment or for treble damages." II *Antitrust Law, supra,* § 311b. But see *Berkey Photo, Inc. v. Eastman Kodak Co., supra,* 457 F.Supp. at 438, referring to "an inaccurate supposition that there is a sharp dichotomy between suits in equity and damage claims." Whatever the appropriateness of the distinction between damages and equitable relief in other contexts, it is viewed in the context of this case as a matter of statutory construction, harmonizing the protective purposes of the patent laws with the competitive purposes of the antitrust laws.[26] The usefulness of the private treble damage action for

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26 This would not be the first time a purpose of the patent laws has been vindicated by imposing upon another body of law a limitation deemed to be necessary by the general body of patent law, rather than a specific patent law provision. *In Lear, Inc. v. Adkins,* 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969), the Supreme Court imposed upon state contract law a prohibition against estoppel of a licensee to contest the validity of the licensed patent. Though operating to limit the contracting freedom of the patentee, *Lear* promotes a purpose of the patent laws by eliminating an impediment to an attack on an invalid patent.

Nor would it be the first time the antitrust laws have been limited in order to achieve objectives safeguarded by another body of law. When the competitive purposes of the antitrust laws have collided with the protective purposes of the labor laws, the Supreme Court has relied not only on the specific exemption of § 6 of the Clayton Act, 15 U.S.C. § 17, but also on the "nonstatutory exemption [that] has its source in the strong labor policy favoring the association of employees

(footnote continued on next page)

effective enforcement of the antitrust laws, see *Minnesota Mining & Mfg. Co. v. New Jersey Wood Finishing Co.*, 381 U.S. 311, 318, 85 S.Ct. 1473, 14 L.Ed.2d 405 (1965), will not be impaired by recognizing that in some circumstances the patent laws can best be accommodated to the antitrust laws by permitting only prospective equitable remedies.

While it may be that Xerox's failure to license patents, on which so much of SCM's claim in this case depends, is not a violation justifying any relief, a holding of that breadth might preclude prospective equitable relief in those cases where the purposes **[1000]** of the antitrust laws warrant such relief, and where the granting of such relief would not have the same adverse effects upon the purposes of the patent laws as would the imposition of damage liability. In short, the distinction is advanced in this case, as a matter of statutory accommodation, not to disallow damages otherwise recoverable, but to leave open the prospect of equitable relief otherwise foreclosed.[27]

These considerations provide a background against which to assess the legal sufficiency of SCM's several theories in support

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to eliminate competition over wages and working conditions." *Connell Construction Co. v. Plumbers Local 100*, 421 U.S. 616, 622, 95 S.Ct. 1830, 1835, 44 L.Ed.2d 418 (1975).

27 The distinction need not necessarily be applied to all damage liability. What is at issue in SCM's 1969 exclusion claim is damage liability for the profits a potential competitor would have made had it been granted the right to use a monopolist's patents. That is a very different claim, for example, from a claim by a monopolist's customer that it has been forced by a restrictive marketing practice (availability only on long-term leasing) to pay excessive prices for the use of a monopolist's patented products. *See Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, 392 U.S. 481, 88 S.Ct. 2224, 20 L.Ed.2d 1231 (1968). And it differs from the claim of a monopolist's competitor who has suffered loss of sales and lawsuit expenses because of an infringement action brought by the monopolist, without knowledge of the details of the competitor's product, to drive the competitor out of business. *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952). Damage claims of this sort do not suggest damage liability for a unilateral refusal to license patents.

of its 1969 exclusion claim. It may be helpful to consider separately each of SCM's contentions under § 7 of the Clayton Act and §§ 1 and 2 of the Sherman Act.

Section 7.

There are two aspects of SCM's § 7 claim. The first and basic contention is that the 1956 and 1959 acquisitions of Carlson and Battelle patents pursuant to the 1956 agreement were unlawful when made and were a proximate cause of SCM's injury. The second claim is that the continued holding of these patents by Xerox in 1969 was unlawful and was a proximate cause of SCM's injury.

An acquisition condemned under § 7 is one whose probable effect is to lessen competition or tend to create a monopoly in a relevant market. SCM made no claim in this case that the convenience office copier market or the plain paper copier sub-market existed in 1956 or 1959 when the challenged acquisitions were made. The SCM evidence sought to prove that the markets existed by 1964, when SCM first claimed entitlement to licenses. In view of the fact that the markets were alleged to come into existence after the challenged acquisitions, the jury was instructed that in determining whether the acquisitions had the probable proscribed effect (Question 20), they should consider whether it was reasonably foreseeable at the time of the acquisitions that the markets would exist and that the proscribed effects would occur in such future markets. (Tr. 43,942–45). These instructions were amplified at the parties' request (Tr. 44,248–60) and further amplified after specific inquiry from the jury (Court Ex. 88, Tr. 44,332–35).

Liability for retrospective money damages cannot be predicated under § 7 upon a patent acquisition made prior to the existence of a relevant product market. No case has ever upheld such liability, and its allowance in this case would be beyond any reasonable accommodation of the patent and anti-trust laws. Indeed, there is considerable doubt whether liability can be grounded under § 7 for the mere acquisition of

any asset prior to the existence of a relevant product market. Section 7 contains its own prospective element concerning the probable future anti-competitive effects of an acquisition in a relevant product market. It is one thing to subject the acquirer of an asset to the risk that he may be liable in damages if he incorrectly assesses the likelihood that his acquisition may in the future substantially lessen competition or tend to create a monopoly in an existing market. But it would be an extreme extension of § 7 to impose upon the acquirer the additional risk of assessing the likelihood that a relevant product market would come into existence at some time in the future.

If § 7 could ever be interpreted to impose liability for money damages for acquisition **[1001]** of property prior to the existence of a relevant market, the policies of the patent laws prohibit such an interpretation as to an acquisition of patents. The purpose of the patent laws is to "promote the Progress of Science and useful Arts." U.S.Const., Art. 1, § 8, Cl. 8. Achievement of that objective is not limited to internally developed inventions. A traditional approach to development of significant products is assignment by the inventor of an exclusive license or the patent itself to a company willing to risk the investment needed for commercial success.

Of course acquisitions of patents are not exempted from § 7. *United States v. Lever Brothers Co.*, 216 F.Supp. 887, 889 (S.D.N.Y.1963); *United States v. Columbia Pictures Corp.*, 189 F.Supp. 153, 181-82 (S.D.N.Y.1960). In some circumstances a patent acquisition may so strengthen a company's power within an existing relevant market and pose such a likely threat of the anti-competitive effects condemned by § 7 that equitable relief may be warranted to prohibit the acquisition or to require prospective licensing, or that a court of equity should withhold injunctive relief when the acquirer seeks to enjoin infringement of the acquired patents. Perhaps damages are available in such circumstances. But to impose damage liability for an acquisition made prior to the existence of a relevant product market would risk inhibiting the commercialization of patented inventions to an extent inconsistent with

the purposes of the patent laws. Inventors and companies that wish to acquire patented inventions in the hope of achieving commercial success may share the dream of developing products that will one day find such public acceptance as to constitute their own relevant product market, and if that prediction is made and actually achieved, its financial rewards are protected by the patent laws and not required by the antitrust laws to be shared with competitors.[28] The rewards are protected, not for "the creation of private fortunes," *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511, 37 S.Ct. 416, 61 L.Ed. 871 (1917), but to provide the incentive for the necessary investment.

It is therefore unnecessary to consider Xerox's contentions that the evidence was insufficient to support the implicit jury determination that the relevant product market and sub-market was reasonably foreseeable at the time of the acquisitions or that such a determination was so contrary to the weight of the evidence as to warrant a new trial.[29]

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28 It must be acknowledged that if equitable relief is warranted to require prospective licensing of a patent acquired in violation of § 7, or if an injunction against an infringer is withheld, the acquirer may well suffer monetary injury to the extent that he loses the exclusive right to profits he would otherwise enjoy for the life of the acquired patent. But as a matter of business reality, there is a world of difference between foregoing future profits and being obliged to pay damages retrospectively for the profits a competitor claims he would have made. Moreover, it is inconceivable that an equitable remedy of royalty-free compulsory licensing would be entered for a § 7 violation until long after the investment in developing the patented invention had been recouped.

29 Since the jury found that the relevant market and sub-market did not exist as of January, 1964, but did exist as of January, 1969, the foreseeability issue was put to the jury with two elements. The jury was told to consider the earliest time after January, 1964, that the market or sub-market came into existence and then consider whether a market or sub-market as of such earliest time was reasonable [*sic*] foreseeable at the time of the acquisitions. SCM has contended that the evidence warranted the entry of summary judgment in its favor on the contention that a relevant market and sub-market existed as of January, 1964.

(footnote continued on next page)

Even if a relevant product market had existed at the time of the patent acquisitions, there is no basis for permitting a damage award for a § 7 violation by an acquirer of patents with no market power prior to the acquisition. Section 7 is concerned with undue concentrations of power and the anti-competitive effects of permitting one entity with market power to **[1002]** strengthen its position by acquisition. See *Brown Shoe Co. v. United States,* 370 U.S. 294, 82 S.Ct. 1502, 8 L.Ed.2d 510 (1962). Even if SCM had claimed and the evidence had shown the existence of a convenience office copier market in 1956 or 1959, a § 7 violation justifying an award of damages cannot occur when patents are acquired by a company that has no share at all of such a market. In 1956 and 1959 Xerox did not produce a convenience office copier.[30] Whether such a violation could occur by acquisition of assets other than patents need not be considered. But simply transferring the exclusionary power of valid patents from an inventor or a research institute to a company with manufacturing and marketing potential does not create damage liability under § 7 when the acquiring company has no market power in the relevant product market. For the patent laws to achieve their purpose, a company without any present market power, because it has yet to develop a product, must remain free, at least of the threat of a damage remedy, to acquire patented inventions and to risk its time and money toward their commerical application.

It is highly questionable whether a § 7 violation occurs at all when a company acquires patents prior to the existence of a relevant product market or acquires patents at a time when it has no market power in a relevant product market. However, it is sufficient for assessment of the acquisition aspect of SCM's

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Even if that contention were sound, the foreseeability issue as to a future market would remain in the case, since SCM did not claim that a relevant market or sub-market existed at the time of the acquisitions.

30 SCM makes no claim that the flat plate equipment or the copy-flo equipment could be considered a convenience office copier.

§ 7 claim to conclude that even if there was a violation warranting prospective equitable remedies, the proper way to harmonize the patent and antitrust laws is at least to preclude a damage remedy for the profits a competitor maintains it would have made had the acquisition not occurred.

Therefore, there is no need to consider Xerox's challenge to the jury's finding that the acquisition of patents pursuant to the 1956 agreement was a proximate cause of SCM's not entering into plain paper copying in 1969. (Question 27a). Implicit in this verdict, in view of SCM's contentions, is a finding that if Xerox had not acquired the Carlson and Battelle patents, Battelle would have insisted upon the sub-licensing of these patents to other companies including SCM. That finding, Xerox contends, is unsupported by the evidence or at least contrary to the weight of the evidence. Though Xerox's contentions on this point need not be decided, significant issues would arise concerning the statute of limitations and the proper construction of § 7, as well as the issues of evidential sufficiency, if a damage award for profits not earned because of a license refusal could be based on the prediction that had Battelle not sold the patents in 1956, it would have required their sub-licensing to SCM in 1969.

Wholly apart from its claim concerning unlawfulness of the patent acquisitions in 1956 and 1959, SCM contends that a § 7 violation warranting a damage award occurred in 1969 by reason of Xerox's continued holding of the patents previously acquired. This contention is based on SCM's attempt to apply the doctrine of *United States v. du Pont & Co. (General Motors)*, 353 U.S. 586, 77 S.Ct. 872, 1 L.Ed.2d 1057 (1957), and *United States v. ITT Continental Baking Co.*, 420 U.S. 223, 95 S.Ct. 926, 43 L.Ed.2d 148 (1975), to the continued holding of patents. The jury found that by 1969 the convenience office copier market and plain paper copier sub-market existed and that Xerox possessed monopoly power in these markets. (Question 1a, 2a, 3a). Thus the barriers to a damage recovery based on the alleged unlawfulness of the initial acquisitions in 1956 do not defeat recovery on a claim of

violation as of 1969, and it is therefore necessary to consider the validity of the jury's verdict sustaining SCM's claim that as of January, 1969, the probable effect of Xerox's continued holding of patents acquired pursuant to the 1956 agreement was substantially to lessen competition or to tend to create a monopoly in the relevant **[1003]** product market and submarket. (Question 21a).[31]

In *du Pont (General Motors)* the Supreme Court held that the lawfulness of an acquisition under § 7 is to be tested not only at the time of the acquisition but "any time when the acquisition threatens to ripen into a prohibited effect." 353 U.S. at 597, 77 S.Ct. at 879. As expressed in *ITT Continental Baking*, "[T]here can be a violation at some time later even if there was clearly no violation . . . at the time of the initial acts of acquisition." 420 U.S. at 242, 95 S.Ct. at 937. However, no case has ever applied the "holding" theory of § 7 to award compensatory damages simply for holding shares or assets, and SCM's effort to do so here fails for three reasons.

First, even as to a holding of shares, the liability for equitable relief upheld in *du Pont (General Motors)* and for damages in the subsequent derivative action, *Gottesman v. General Motors Corp.*, 414 F.2d 956 (2d Cir. 1969), was based on an impermissible *use* of the shares. "Sec. 7 contemplates an action at any time the stock is used to bring about, or in attempting to bring about, the substantial lessening of competition." 353 U.S. at 597-98, 77 S.Ct. at 879-80. The shares of General Motors were not merely held by du Pont. As viewed

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31 No issue was submitted to the jury as to whether the holding of the acquired patents was a proximate cause of SCM's not entering into plain paper copying in 1969. As SCM contends, there was no fact-finding to be done concerning this issue. If the holding of the patents created a duty under § 7 to license them, then the failure to license was a proximate cause of the damages due to the loss of profits the jury found SCM would have earned had it been granted licenses. (Questions 50 and 51). That conclusion follows once the jury determined that as of January, 1969, SCM had the intention, preparedness, and capability to enter plain paper copying. (Question 22a).

by the Supreme Court, the record was clear "that du Pont purposely employed its stock to pry open the General Motors market to entrench itself as the primary supplier of General Motors' requirements for automotive finishes and fabrics." 353 U.S. at 606, 77 S.Ct. at 884. It is true that the Second Circuit in *Gottesman* subsequently observed that "what was unlawful was du Pont's status as stockholder in General Motors. . .." 414 F.2d at 965. However, the Court of Appeals later made clear that a holding of stock is not enough; the plaintiff must show that the defendant "did in fact so use its stock ownership as to cause a jury to the plaintiff. . .." *International Railways of Central America v. United Brands*, 532 F.2d 231, 247 (2d Cir. 1976).

SCM cannot base a damage claim under the "holding" theory of § 7 simply because in 1969 Xerox held patents that it had previously acquired. There is no claim that the patents were used to inflict damages. The only thing Xerox is alleged to have done with its acquired patents that caused SCM damage is to decline to license them. That is not a sufficient use of a held asset to create liability for compensatory damages.[32]

Second, even if the holding of an asset unaccompanied by anti-competitive use could create § 7 liability, such a theory cannot support a compensatory damage award to SCM because there is no obligation under § 7 to share even a wrongfully held asset with competitors. What du Pont was ultimately obliged to do with its General Motors shares was to sell them for value on the open market. *United States v. du Pont & Co.*, 366 U.S. 316, 81 S.Ct. 1243, 6 L.Ed.2d 318 (1961). It was not obliged to share the attributes of ownership with anyone.

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32 This situation is to be contrasted with *ITT Continental Baking*, where after entry of a consent decree prohibiting acquisitions in specific product lines, defendant was held liable for daily fines for subsequent acquisitions in violation of the decree.

Third, even if the "holding" theory of § 7 could create damage liability for the holding of some assets, a proper reconciliation of the patent and antitrust laws precludes the application of such a doctrine to patents. The purposes of the patent laws would be substantially impaired if a company that acquired patents lawfully and later found that the success of products embodying the patented inventions gave the com-**[1004]**pany substantial power in a relevant market had to weigh the risk of a trebled damage award whenever it declined to license the patents and thereby exercised what it understood were its rights, under the patent laws, to the exclusive use of the patented inventions. If the "holding" theory of § 7 applies at all to patents, the remedies for a violation based on this theory are limited to prospective licensing or withholding of equitable relief to enjoin infringement.

Section 7 does not provide the basis for an award of compensatory damages on the 1969 exclusion claim.

Section 1.

The jury concluded that as of January, 1969, the 1956 Xerox-Battelle agreement was an unreasonable restraint of trade (Question 15a) and that the agreement or the acquisition by Xerox of patents pursuant to that agreement was a proximate cause of SCM's not entering into plain paper copying in 1969 (Question 27a). There are five aspects of the agreement, and none of them, singly or in combination, provides a valid basis for entering a money judgment based on these verdicts of the jury.

A salient feature of the 1956 agreement was, of course, the transfer of title to the Carlson patents and the Battelle improvement patents to Xerox in 1956 and 1959. As previously discussed, that transfer did not create liability for money damages under § 7 of the Clayton Act. If the transfer of title is not a basis for money damages under § 7, it cannot be a basis for money damages under the more rigorous standards of § 1. The restraint condemned by § 1 is an unreasonable restraint

upon competition, *National Society of Professional Engineers v. United States,* 435 U.S. 679, 98 S.Ct. 1355, 55 L.Ed.2d 637 (1978); *Continental T.V., Inc. v. GTE Sylvania Inc.,* 433 U.S. 36, 97 S.Ct. 2549, 53 L.Ed.2d 568 (1977). The transfer of title to the Carlson and Battelle patents had no adverse impact upon competition in 1956 or 1959 because there was no competition in any convenience office copier or plain paper copier embodying the patented inventions. It must be recalled that the first Xerox plain paper convenience office copier, the 914, was not marketed until 1960.

Nor can the fact of the patent acquisitions in 1956 and 1959 give rise to damage liability under § 1 in 1969. Whatever the conceivable application of the "holding" theory of § 7 to patents, there is no authority for upholding damage liability under § 1 because of the subsequent holding of a patent previously acquired. The infirmities of applying such a theory to damage liability for the holding of patents under § 7 are fully applicable to § 1.

Arguably more pertinent is the aspect of the 1956 agreement obligating Battelle to assign to Xerox all subsequently discovered patented inventions relating to xerography as long as Xerox maintains a level of research expenditures at Battelle in excess of $25,000 per year. On its face, an agreement enabling a company with monopoly power to require assignment to it of all future patents in the pertinent field that the contracting party may develop or acquire raises substantial issues under § 1.

This aspect of the 1956 agreement cannot support the entry of any judgment for exclusion damages in favor of SCM, however, because SCM neither claimed nor presented evidence from which the jury could reasonably conclude that SCM suffered damages for lack of licenses under any patents Battelle obtained after 1959 and assigned to Xerox. The SCM damage evidence was premised on the assumption that in 1969 SCM would have received licenses to use all of Xerox's plain paper copier patents. A few of the patents Battelle obtained

after 1959 and assigned to Xerox may well have been useful in improving plain paper copiers. But SCM offered no evidence to show that it could have made profits with licenses to use only Battelle's post-1959 patents. Since SCM is not entitled to damages for lack of licenses to use the Carlson and Battelle improvement patents acquired by Xerox in 1956 and 1959, SCM has proved no damages because it was denied licenses on **[1005]** the few patents acquired from Battelle after 1959, only four of which were used in plain paper copiers.[33]

The third aspect of the 1956 agreement, and the one now most relied upon by SCM, is the termination of Xerox's contractual obligation to Battelle, pursuant to the 1948 and 1951 agreements, to use diligent efforts to secure sub-licensees for the commercialization of the patents for which Xerox had obtained exclusive licenses from Battelle. Preliminarily, Xerox contends that the termination of the sub-licensing obligation was of no significance because of the evidence that Battelle expected Xerox to seek sub-licensees only for applications of

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33 This gap in SCM's proof makes it unnecessary to consider several Xerox contentions concerning the claim based on patents acquired from Battelle after 1959. First, Xerox relies on the jury's answer to Question 35, finding, as Xerox contended, that it was not possible to make a commercially reliable xerographic plain paper copier prior to March 11, 1969, without infringing the Carlson '699 patent. Xerox contends that since the lack of this single patent, acquired by Xerox in 1956, prevented SCM from manufacturing a non-infringing product until a date after January, 1969, SCM cannot complain of lack of post-1959 patents and receive damages for the profits it claims it would have made starting with use of the Xerox patents in January, 1969.

Second, Xerox contends that the acquisition of the post-1959 patents from Battelle could not be a violation of § 1 (or § 7) because all xerographic research at Battelle after 1955 was sponsored by Xerox, and the sponsor, having taken the risk of investing in the research, was entitled to the results.

Third, Xerox contends, as it has with respect to all the patents acquired pursuant to the 1956 agreement, that the evidence is insufficient to support a verdict that, without the agreement, Battelle would have caused the patents to be sub-licensed for plain paper copying to others including SCM, or at least that such a conclusion is against the weight of the evidence.

xerography to fields other than plain paper copying. It is not necessary to assess the sufficiency of the evidence to support the implicit jury finding that the 1956 agreement did terminate a sub-licensing obligation under which sub-licensing of xerographic patents for plain paper copying would have occurred. Even if the termination had that effect, it cannot validly be found to be an unreasonable restraint of trade, and in no event can support a damage award for the profits that would have been made if sub-licensing had occurred.

The grant of an exclusive license from Battelle to Xerox pursuant to the 1948 agreement, as reconfirmed in the 1951 agreement and extended to worldwide rights, was entirely lawful when made. Whatever contractual obligation Xerox owed Battelle to seek sub-licensees was not needed to assure the lawfulness of the 1948 and 1951 license agreements. This case differs from *Western Geophysical Co. of America v. Bolt Associates, Inc.*, 305 F.Supp. 1251, 1254-55 (D.Conn.1969), *aff'd*, 584 F.2d 1164 (2d Cir. 1978), where an obligation to seek sub-licensees for a perfected device eliminated any question as to whether an exclusive licensing agreement might have unlawful anti-competitive effects. As to embryonic technology, a decade prior to successful commercial application, exclusive patent licenses from a research institute to a commercial developer with no market power in the pertinent field cannot possibly be an unreasonable restraint of trade, even if the developer assumes no obligation to seek sub-licensees.

As the holder of lawfully granted exclusive licenses to use the Battelle patents, Xerox had a lawful monopoly with respect to the inventions covered by those patents. Xerox had the lawful right to exclude anyone else from using those patents for their unexpired terms. That lawful monopoly is the essence of the patent, and its exercise, valid under the patent laws, cannot be a violation of the antitrust laws. If the 1956 agreement had not been made, Xerox would have incurred no liability under the antitrust laws by refusing to sub-license SCM or anyone else under the Battelle patents. It may be that a refusal to sub-license would have given Battelle a claim for breach of contract. But SCM was not a third-party beneficiary of the 1948 and

1951 agreements by which Xerox acquired its exclusive licenses. Since Xerox would have **[1006]** incurred no antitrust liability by refusing to sub-license the Battelle patents before 1956, it cannot incur antitrust liability thereafter by entering into a contractual arrangement that confirms its right to refuse to grant licenses.

The situation would of course be different if the holder of patent rights, whether patentee or exclusive licensee, contracted with another *not* to license or sub-license others. That type of agreement is a restraint of trade, and it may properly be found to be unreasonable. The restraint arises from the fact that someone other than the holder of the lawful right to exclude has by agreement been given the power to prevent licensing. The 1956 agreement, even in SCM's view, gave to Xerox, which already held the power to exclude, freedom from Battelle's right to insist on licensing. The acquisition of that freedom put Xerox in the same position as any patentee or exclusive licensee. It may be that the likelihood of sub-licensing by Xerox was less under the 1956 agreement than before it. But that would be true of an agreement between a patentee and several holders of non-exclusive licenses to cancel the licenses. Indeed, an agreement to terminate non-exclusive licenses would *assure* less licensing immediately after the agreement than before it. But neither the certainty of less licensing nor the increased likelihood of less licensing is an unlawful restraint of trade unless the agreement imposes some unlawful restraint on the holder of the patent rights. The 1956 agreement imposed no restraint whatever on Xerox's power to decide whether or not to license the exclusive rights it lawfully held to the Battelle patents.

Two other aspects of the 1956 agreement require little comment. Battelle agreed to transfer to Xerox all data and know-how concerning xerography that Battelle might acquire in the future, the obligation to continue as long as Xerox funded at least $25,000 of research at Battelle per year. SCM made no claim and offered no proof that it suffered any damage for lack of any data and know-how that Battelle transferred to Xerox pursuant to this obligation.

The 1956 agreement also terminated Xerox's obligation under the 1951 agreement to assign to Battelle title to any new xerographic patents that Xerox might obtain, with Xerox taking back an exclusive license. The termination of this provision of the 1951 contract is not a restraint of trade in violation of § 1. Trade is not restrained within the meaning of § 1 when a company secures freedom to keep title to its own internally developed patents.

Section 1 does not provide the basis for an award of compensatory damages on the 1969 exclusion claim.

Section 2.

The jury concluded that in January, 1969, Xerox had monopoly power in both the convenience office copier market and the plain paper copier sub-market (Question 3a). That finding requires consideration of the appropriate standard for determining whether that monopoly power was willfully acquired or maintained so as to constitute a violation of § 2, *United States v. Grinnell Corp.*, 384 U.S. 563, 86 S.Ct. 1698, 16 L.Ed.2d 778 (1966), and whether a § 2 violation by Xerox, if it occurred, created a duty to license patents for breach of which damages may be awarded.

As previously indicated, some accommodation had to be made between the patent and the antitrust laws in focusing the jury's attention on the issue of willful acquisition or maintenance of monopoly power in a case dealing primarily with patents. Otherwise every effort to obtain a patent, whether by internal development or purchase, could be considered an attempt to acquire monopoly power, since the power to exclude, which is the essence of every patent, is monopoly power. With considerable uncertainty, in the absence of authoritative guidance in this area, the Court endeavored to give the jury a standard for distinguishing between what was termed "lawful patent power" and "unlawful patent power," with the exclusionary power of only unlawful patent power permitted to be considered on the issue of whether monopoly power had been willfully acquired or maintained.

[1007] The distinction between lawful and unlawful patent power was applied to both internally developed and externally obtained patents. As to the former, the jury was told that while normally a company was entitled to obtain patents from the U.S. Patent Office on its own inventions without any limitation, see *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 834, 70 S.Ct. 894, 94 L.Ed. 1312 (1950), an exception existed in the case of a company that had acquired monopoly power in a relevant market. The jury was told that once a company had acquired monopoly power, it could not thereafter acquire lawful patent power if it obtained new patents on its own inventions primarily for the purpose of blocking the development and marketing of competitive products rather than primarily to protect its own products from being imitated or blocked by others. (Tr. 43,846-51). While there is no case law authority for this standard,[34] it appears to make a reasonable accommodation between the policies of the patent and antitrust laws, unless there is to be no limitation whatsoever on the purposes for which a monopolist can add to its exclusionary power through generation of new patents. The only threat to the policies of the patent laws would seem to be the possible inhibition on research investment because of the risk that bona fide research directed at new product development might one day be found to have been motivated primarily by a desire to block others from bringing competitive products to market. It would seem to be a fair question whether assigning that risk to a company with monopoly power is a reasonable cost to avoid the substantial market control that would ensue if a company with monopoly power were free to

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34 The suggested standard is considered and apparently disapproved by Areeda and Turner, III *Antitrust Law, supra*, § 706b, either because a case meeting the standard would be "hard to find" or because the various motivations of an inventor are so inextricably intertwined that the search for an improper motivation is not worth making. ***But see*** Turner, "The Patent System and Competitive Policy," 44 N.Y.U.L.Rev. 450, 455 (1969): "[T]he patent system has at times induced the use of research resources solely for the purpose of providing blocking patents."

continue its dominant position by patenting, for blocking purposes, alternative methods of competition.

The jury eliminated this issue from the case by finding that SCM had not proved that Xerox, after it had monopoly power, obtained any patents from the Patent Office primarily for the purpose of blocking the development and marketing of competitive products. (Question 5a).

As to externally obtained patents, the jury was told that the exclusionary power of patents was unlawful patent power if the patents were acquired in violation of either § 7 of the Clayton Act or § 1 of the Sherman Act. (Tr. 43,853-55). The jury found that the acquisition of patents pursuant to the 1956 Xerox-Battelle agreement violated the standards of § 7 (Question 20) and § 1 (Question 15), but was not asked for specific findings with respect to any other acquisitions of patents or patent rights.

As to both internally developed and externally obtained patents, the jury was told that unlawful patent power results if the holder of lawful patent power makes an agreement in violation of § 1 not to license the patent. (Tr. 43,807, 43,858). The jury eliminated this issue from the case by finding that SCM had not proved the alleged agreement between Xerox and others to deny plain paper copier patent licenses. (Question 16).

Wholly apart from patents, the jury was told that any anti-competitive or exclusionary conduct could be found to be indicative of willful acquisition or maintenance of monopoly power if such conduct added some significant market power. (Tr. 43,860). No questions were submitted concerning any specific conduct.

Having been instructed as to these standards for determining whether patent-related conduct and any other conduct could be found to be the willful acquisition or maintenance of monopoly power, the jury was then asked to determine whether as of January, 1969, Xerox willfully acquired or **[1008]** maintained

monopoly power in a relevant market or sub-market "by conduct *other than* obtaining and exercising lawful patent power." (Question 4a). While that is an awkward way for a jury to be asked to make a factual determination, it at least afforded some assurance that the jury would not be permitted to find a § 2 violation solely on the basis of legitimate ownership and enforcement of lawfully developed and acquired patents. The jury found, under this "other than" formulation, that Xerox had willfully acquired or maintained monopoly power. (Question 4a). Since the jury found that the acquisition of patents pursuant to the 1956 Xerox-Battelle agreement violated the standards of § 7 (Question 20) and § 1 (Question 15), it may be presumed that, under the instructions, these findings were a principal basis for the finding of the second element of a § 2 violation.[35]

It should be noted, however, that SCM urged additional conduct by Xerox as evidence of willful acquisition or maintenance of monopoly power. With respect to patents, SCM contended that Xerox had sought to strengthen its monopoly position by acquisition of patents from another company, Horizons Corp., and by grant-backs of patent rights from companies licensed to use xerographic patents for non-copier purposes. In at least one instance, the grant-back licenses were exclusive, a circumstance the jury was told could be found to

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35 Since this Court has concluded that the 1956 Battelle agreement cannot create damage liability under §§ 1 or 7, that conclusion may preclude damage liability under § 2 based on that agreement alone. However, the claim for damages under § 2 needs to be explored because a reviewing court may conclude that the 1956 agreement supports liability for damages, or violates §§ 1 or 7 but supports liability only for prospective equitable relief. Even if the 1956 agreement is not itself a violation of any antitrust provision, it might be some evidence of willful acquisition of monopoly power. If damage liability under § 2 for a refusal to license is not warranted under any view of the facts of this case, that conclusion would eliminate the need for a retrial to determine whether any conduct other than the 1956 agreement creates damage liability under § 2 for the 1969 license refusal.

be indicative of willful maintenance of monopoly power. (Tr. 43,855-56, 43,914-17). Apart from patent-related conduct, the principal if not the only exclusionary conduct complained of was the use of two-year post-employment covenants not to compete, required by Xerox for a time from all of its employees. See *Xerox Corp. v. Neises,* 31 App.Div.2d 195, 295 N.Y.S.2d 717 (1st Dept. 1968). See also *Newburger, Loeb & Co. v. Gross,* 563 F.2d 1057 (2d Cir. 1977). In addition to exclusionary conduct, SCM alleged anti-competitive marketing practices, which may have been evidence of willful maintenance of monopoly power.[36]

Since the jury found the elements of a § 2 violation (Questions 3a and 4a), consideration must be given to whether, in the circumstances of this case, Xerox's refusal to license constitutes a basis for imposing liability for damages. A threshold inquiry is to determine when, if ever, a unilateral refusal to license is a violation of § 2 warranting any relief. Several standards are available. A duty to license could be claimed to arise whenever a company has monopoly power, analogous to a monopolist's duty to deal in non-patented products when a refusal to deal would maintain monopoly power. See *Lorain Journal Co. v. United States,* 342 U.S. 143, 72 S.Ct. 181, 96 L.Ed. 162 (1951). Or a duty to license patents might arise whenever a company not only has monopoly power but also abuses its market position by engaging in some injuri- **[1009]** ous conduct, other than the license refusal itself. Most perti-

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36 SCM also alleged that willful acquisition and maintenance of monopoly power could be inferred from the arrangements between Xerox and its family of companies. Even though the jury rejected SCM's contention that these companies made an agreement to exclude all others from plain paper copying (Question 18), the jury may have accepted SCM's contention that these companies divided the world into exclusive territories for marketing purposes. That conduct, if found to have occurred, *see* note 19, *supra,* would primarily injure consumers denied the availability of more competing suppliers, rather than a potential market entrant, like SCM, who might be better off if insulated in the United States from the competition of Rank-Xerox and Fuji-Xerox.

nent would be patent-related exclusionary conduct, such as patent misuse or a bad faith infringement suit. Less pertinent would be any exclusionary conduct, whether or not patent-related. Still less pertinent would be any anti-competitive conduct, whether or not it had any tendency to exclude.[37]

Instead of instructing the jury with respect to any one of these standards, the Court endeavored to submit jury interrogatories that framed a progression of alternative theories to provide a basis for subsequent court adjudication. The bare existence of monopoly power was determined by the answer to Question 3a. Additional questions were asked to determine the existence of conduct that abused monopoly power. The answer to Question 4a determined that Xerox engaged in some anti-competitive conduct, other than obtaining or exercising lawful patent power, that showed willful acquisition or maintenance of monopoly power. The answer to Question 23a determined that Xerox engaged in some exclusionary conduct, other than obtaining or exercising lawful patent power. The answer to Question 24a determined that Xerox engaged in some patent-related exclusionary conduct, other than obtaining or exercising lawful patent power.

The answer to Question 24a also determined that Xerox's patent-related exclusionary conduct was a proximate cause of SCM's not entering into plain paper copying in 1969. Since SCM had alleged antitrust violations based solely on the 1956 Battelle agreement, the jury was specifically asked whether the 1956 Xerox-Battelle agreement or the acquisition by Xerox of patents pursuant to that agreement was a proximate cause of SCM's not entering into plain paper copying. (Question 27a). The jury answered "yes."

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37 This appears to be the standard urged by SCM. Its Request to Charge No. § 2-64 read: "If you find that Xerox engaged in any restrictive, exclusionary or anti-competitive conduct which contributed to its achievement or maintenance of monopoly power, then on that basis you must also find that Xerox's refusals to grant a license were themselves each in violation of Section 2 of the Sherman Act."

Fortuitously, as it turned out, the return of these verdicts prompted additional interrogatories, which established that the 1956 Battelle agreement was the only patent-related exclusionary conduct of Xerox that was a proximate cause of SCM's not entering into plain paper copying in 1969. In its initial proximate cause verdicts the jury answered "yes" to Question 27a, concerning the 1956 Battelle agreement, and at the same time answered "no" to Question 23a, concerning exclusionary conduct, and "no" to Question 24a, concerning patent-related exclusionary conduct. These answers appeared to create an inconsistency, although, as SCM contended after the verdicts were returned, a likely explanation was that the Court's charge with respect to Questions 23a and 24a had diverted the jury's attention away from the Battelle agreement and possibly caused them to believe the questions concerned conduct other than the Battelle agreement.

The possible inconsistency was called to the jury's attention,[38] and after further deliberation, the jury changed their answers to Questions 23a and 24a from "no" to "yes." That revision appeared to make it clear that the 1956 Battelle agreement was the sole basis for the "yes" answer to Questions 23a and 24a. To be sure, the jury was given a further interrogatory, Question 27a-1, which asked whether the "yes" answer to Question 27a was the sole basis for the "yes" answers to Questions 23a and 24a. The jury answered "no" to Question 27a-1 and submitted a note, Court Exhibit 117, **[1010]** which stated that the "yes" answers to Questions 23a and 24a had not been given just to correspond to the "yes" answer to Question

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38 The submission of additional interrogatories to resolve a possible inconsistency in special verdicts raised an issue under Fed.R.Civ.P. 49, which specifically authorizes further jury deliberation when an inconsistency arises in the use of special verdicts accompanied by a general verdict, Rule 49(b), but omits such authority when only special verdicts are used, Rule 49(a). *See Griffin v. Matherne,* 471 F.2d 911, 917 n. 6 (5th Cir. 1973). Whatever the practice may be under Rule 49(a) in a trial of normal duration, further jury deliberation rather than retrial seemed warranted to reach the objectives of Rule 1. (Tr. 44,644-45).

27a, but had been given in light of the Court's instructions. That created a further ambiguity: the jury could have meant that it thought there were additional patent-related exclusionary acts besides the Battelle agreement that were a proximate cause of SCM's exclusion, or the jury could simply have meant that it was not answering "yes" to Questions 23a and 24a just to conform to the "yes" answer to Question 27a, but to conform to the substance of what the "yes" answer to Question 27a represented.

In a further attempt to have the jury's decision-making clear, the Court gave the jury an additional interrogatory, Question 24a-1, which directly asked them to list or describe whatever patent-related exclusionary conduct of Xerox was a proximate cause of SCM's not entering into plain paper copying in 1969. To this question, the jury answered only "1956 Battelle Agreement." Thus, despite SCM's objections to having the matter clarified, we now know without any doubt that the jury found the 1956 Battelle agreement to be the only patent-related exclusionary conduct that was a proximate cause of SCM's not entering into plain paper copying in 1969.

Therefore, SCM is limited to two claims in seeking to impose damage liability on Xerox under § 2. SCM can assert that the 1956 Battelle agreement, pinpointed by the jury as the only patent-related conduct causing exclusion, was conduct that violated § 2, or it can assert that Xerox's refusal to license its plain paper copier patents in 1969 was conduct that violated § 2.[39] SCM cannot predicate damage liability on any non-pat-

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39 No issue was submitted to the jury as to whether the refusal to license in 1969 was a proximate cause of SCM's not entering into plain paper copying. As was the case with SCM's "holding" theory under § 7, *see* note 31, *supra*, if § 2 required licensing, then the failure to license was a proximate cause of SCM's lost profits. The only factual issue concerning causation was raised by Xerox's defense that the license refusal did not "cause" losses because SCM could reasonably have avoided any losses by entering the market with its own infringing products and then asserting as a defense to the infringement suit the same § 2 claims it asserts now. The jury rejected this defense (Question 33).

ent-related conduct because it neither claimed nor offered evidence that any such conduct, the post-employment covenants, for example, caused it any damage. SCM's entire exclusion damage proof consisted of the losses suffered by lack of licenses. As to the 1956 Battelle agreement, wholly apart from the infirmities already discussed in predicating damage liability for this agreement under §§ 1 and 7, there could be no basis for imposing § 2 damage liability for making the agreement because in 1956 Xerox did not have monopoly power in a relevant market. To the extent SCM is claiming that the 1956 agreement made possible a wrongful denial of licenses in 1969, that is only another way of approaching the basic question of whether damage liability may be imposed under § 2 for the unilateral refusal to license patents.

A starting point for this inquiry is the case law concerning a prospective duty to license. It has long been held that compulsory licensing of patents is an appropriate remedy for an adjudicated antitrust violation involving a misuse of the patents. *Besser Manufacturing Co. v. United States,* 343 U.S. 444, 72 S.Ct. 838, 96 L.Ed. 1063 (1952) (concerted refusal to license); *United States v. Gypsum Co.,* 340 U.S. 76, 71 S.Ct. 160, 95 L.Ed. 89 (1950) (concerted price-fixing in patent licenses); *United States v. National Lead Co.,* 332 U.S. 319, 67 S.Ct. 1634, 91 L.Ed. 2077 (1947) (concerted pooling of patents to restrict trade); *Hartford-Empire Co. v. United States,* 323 U.S. 386, 65 S.Ct. 373, 89 L.Ed. 322 (1945) (same).

The singular example of prospective licensing as a remedy for an adjudicated antitrust violation not involving patent misuse is *United Shoe Machinery Corp. v. United States, supra.* The violation was based primarily on monopoly power and marketing of products only pursuant to a 10-year lease. While the District Court opinion noted that United's acquisition of about 5% of its patents from others buttressed its mar-**[1011]**ket power and in some instances made it less likely that United would have competition, 110 F.Supp. at 333, there is no indication that this observation was a basis for the finding of a § 2 violation, nor for the determination that

compulsory licensing was an appropriate remedy. Indeed the District Court specifically noted that the compulsory licensing aspect of the decree was not adopted "for abusive practices respecting patents, for [United] engaged in none . . . ." 110 F.Supp. at 351.

These decisions do not intimate whether the conduct that warrants the equitable remedy of prospective licensing would justify the imposition of damage liability for the profits a potential competitor would have made if he had received patent licenses. In the *United Shoe* litigation, the subsequent adjudication of damage liability for United's § 2 violation concerned the higher prices that United's customer paid for the leased products over what would have been paid under outright sales. *Hanover Shoe v. United Shoe Machinery Corp., supra.* There is no suggestion in *United Shoe* or any subsequent litigation that damages might be awarded to a potential competitor of United's for the profits not earned for lack of patent licenses.

With respect to assets other than patents, there is authority that a monopolist's unilateral refusal to deal violates the antitrust laws where the refusal is part of an attempt to further monopoly power. *E.g., Lorain Journal Co. v. United States, supra; Otter Tail Power Co. v. United States, supra.* These cases have found a violation in the context of a government action seeking equitable relief, but other cases have sustained the sufficiency of complaints by private parties seeking damages for a monopolist's unilateral refusal to deal. *Six Twenty-Nine Productions, Inc. v. Rollins Telecasting, Inc.*, 365 F.2d 478 (5th Cir. 1966); *Banana Distributors, Inc. v. United Fruit Co.*, 162 F.Supp. 32 (S.D.N.Y.1958), *rev'd on other grounds*, 269 F.2d 790 (2d Cir. 1958); *Greenleaf v. Brunswick-Balke Collender Co.*, 79 F.Supp. 362 (E.D.Pa.1947).

Even these cases, however, indicate no more than the legitimacy of damage liability for a monopolist's unilateral refusal to sell a product or service generally available to customers. They do not necessarily determine that even a monopolist is

liable for damages when he refuses to share his assets with a potential competitor. The Lorain Journal Company, for example, violated § 2 by refusing to sell advertising space to anyone advertising on a competing radio station, not for refusing to permit a potential competitor to use its printing presses. Of course, a patent, unlike most assets, can be used simultaneously by its owner and by others, and such multiple use causes no reduction in use by the owner.

In any event, neither the authorites upholding prospective licensing of patents for adjudicated § 2 violations nor the authorities upholding damage liability for a monopolist's unilateral refusal to deal in assets other than patents determine whether damage liability may be imposed under § 2 for refusal to license patents. Determining the antitrust significance of a unilateral license refusal requires further exploration.

In a leading case finding a violation of § 2, it was observed, "Normally the patent owner is under no requirement to license the use of patents . . . ." *United States v. General Electric Co.* (lamps), 82 F.Supp. 753, 817 (D.N.J.1949). This same view has been expressed in numerous decisions of the Supreme Court,[40] although not in a context where the prospective competitor, denied a license, sought damages on the claim that the patent owner's willful acquisition or maintenance of monopoly power created a duty to license. *Cf. United States v. Colgate & Co.*, 250 U.S. 300, 307, 39 S.Ct. 465, 468, 63 L.Ed. 992 (1919), qualifying the frequently expressed right of a trader uni- **[1012]** laterally to refuse to deal with a customer with the phrase, "In the absence of any purpose to create or maintain a monopoly."

G.E. (lamps) also contains the implication that a refusal to license may have significance when combined with other exclu-

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40 *See Special Equipment Co. v. Coe*, 324 U.S. 370, 65 S.Ct. 741, 89 L.Ed. 1006 (1945); *Hartford-Empire Co. v. United States, supra*, 323 U.S. at 432, 65 S.Ct. at 395 ("A patent owner . . . has no obligation either to use [the patented invention] or to grant its use to others."); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 28 S.Ct. 748, 52 L.Ed. 1122 (1908); *Bement v. National Harrow Co., supra*, 186 U.S. at 90, 22 S.Ct. 747.

sionary conduct. "*Standing by itself* General Electric's right to limit or deny patent licenses to those whom it does not desire to license without assigning a reason is not to be questioned." *Id.* at 900 (emphasis added). However, the holding in *G.E.* (lamps) appears not to be based on a refusal to license: "The power to exclude does not flow from the fact that General Electric denied licenses . . . ." *Ibid.*

The Report of the Attorney General's National Committee to Study the Antitrust Laws (1955) asserts that "a decision not to . . . license certain patented inventions may be evidence of monopolization or a specific intent to monopolize under Section 2 of the Sherman Act." *Id.* at 231. Cited in support of this proposition are *United States v. Aluminum Co. of America,* 91 F.Supp. 333, 386 (S.D.N.Y.1950), and *United States v. General Electric Co.* (Carboloy), 80 F.Supp. 989, 1015 (S.D.N.Y.1948). The District Court's opinion in *Alcoa* observed that "the matter of patents . . . comprehends not only the existence of patents as a potential corporate resource, but also the manner by which the inventions are supplied to, *or withheld from,* the rest of an industry with the purpose or design of exploiting the same in order to improve the market position of the patent owner." 91 F.Supp. at 386 (emphasis added). It is not clear from this passage whether antitrust significance might arise from a refusal to license or from an insistence on restrictive license terms as a condition of obtaining a license. The issue appears not to have affected the decision, since the Court observed, "On some patents, no licenses are granted, but these seem to relate exclusively to minor process improvements which Alcoa considers to be part of its operating knowledge." 91 F.Supp. at 387.

G.E. (Carboloy) sheds little, if any, light on the significance of a unilateral refusal to license patents. The core of the misconduct was price-fixing by potential competitors. A possible implication concerning refusal to license may exist in the Court's discussion of the distinction between § 2 cases involving patents and other property. "Although in a non-patent case exclusion, unlawful achievement, and abuse of monopoly

power may not need to be proved, elements of such conduct are necessary in a patent case before Section 2 may be invoked." 80 F.Supp. at 1015. In referring to the "exclusion" to be proved in a § 2 patent case, the District Court may have contemplated a refusal to license, but it was more likely referring to the "illegal boycott to prevent competition in the sale of unpatented tools," *id.* at 1009, that occurred in that case.

These authorities provide little guidance on the basic issue of whether damage liability may be imposed under § 2 for a unilateral refusal to license patents. The instances of prospective licensing as a remedy for adjudicated violations are not support for such damage liability. It is not the usual rule of law that a person is liable in damages for having failed to follow a course of conduct that a court of equity subsequently determines is appropriate to lessen or eliminate the effects of some unlawful practice. The antitrust violator need not speculate about what remedies a court of equity may one day order, on pain of paying damages if he makes an inaccurate prediction. For damage liability to be upheld under § 2 in this case, the refusal to license must itself be an actionable wrong.

No case has been found where a potential competitor has received lost profits as damages because of a patent owner's unilateral refusal to license a valid patent. In some circumstances, the refusal to license may be considered a § 2 violation warranting equitable relief. And perhaps a refusal to license could be evidence of elements of a § 2 violation warranting equitable relief and damage liability for some other anti-competitive conduct. But the need to accommodate the patent laws with the antitrust laws precludes the imposition **[1013]** of damage liability under § 2 for a unilateral refusal to license valid patents. Such damage liability may not be imposed upon a company simply for having monopoly power nor as a penalty for abusing monopoly power by any other exclusionary or anti-competitive conduct. Such conduct renders the monopolist liable for three times the damage inflicted by that conduct. To impose damage liability for the losses suffered because of

the license refusal itself would pose a serious threat to achieving the purposes of the patent laws.

It is a premise of the patent laws that a company employing inventors must have substantial incentive to spend money for research that may lead to patentable inventions. The "Progress of Science and useful Arts" is also aided by enabling a company, prior to the time it has developed a marketable product and thereby acquired any market power, to acquire patents from others, especially from non-competitor research entities. Such internal and external accumulations of patents may well lead to the development of inventions and products using inventions. The history of plain paper copiers, as evidenced by the record in this case, is an extraordinary example of such a development.

Perhaps under the principles of *United States v. Aluminum Co. of America,* 148 F.2d 416 (2d Cir. 1945), an accumulation of internally developed and externally acquired patents may indicate that a company has achieved monopoly power and willfully maintained it. Even if such findings would be impermissible during the 17-year terms of the basic patents, they would more likely be upheld in the period after expiration of basic patents when improvement patents continue to afford dominance over an industry. A § 2 violation might be found, notwithstanding the suggestion that once the basic patents have expired, the improvement patents afford the dominant company no greater opportunity for protection than that available to potential competitors. In a high technology field where research, engineering, and production require considerable capital investment, it is unrealistic to expect a potential competitor, denied the opportunity to earn profits from products protected by the basic patents, to invest the sums needed to invent patentable improvements in the hope that its improvements will prove superior to those likely to be invented by the dominant company during the period of its basic patent protection. The monopoly provided by the basic patents can provide a period of competitive insulation in which the dominant company can continue to develop improvement patents to

maintain an insurmountable lead over potential competitors. That is the prospect Justice Douglas warned against in *Transparent-Wrap Machine Corp. v. Stokes & Smith Co., supra,* 329 U.S. at 646-47, 67 S.Ct. at 616: "As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate control over an industry long after the basic patent expired."

A § 2 violation based on the dominance of a patent owner after the expiration of basic patents may well warrant prospective equitable relief, even if the patent owner, once having acquired monopoly power, simply continues to invest in research, to patent resulting inventions, and to exercise the lawful power to exclude, provided by each new patent, by refusing to license the patent. Prospective equitable relief may be required to achieve the competitive purposes of the antitrust laws, and it can be fashioned without undue impairment of the objectives of the patent laws. There is no reason to believe that RCA, IBM, or Xerox were inhibited in their investment toward new inventions because of the prospect that one day they might be required to license prospectively or, as happened, might agree to license prospectively in the face of a government suit seeking equitable relief.

However, the prospect of paying potential competitors three times the profits they would have earned if they had been granted patent licenses would pose a grave threat to achieving the objectives of the patent laws. The company facing such a prospect might well decide either to forego basic research and invest in other profit opportunities, or pursue research and forego patent protec- **[1014]** tion, relying instead, especially in a high technology field, on the lead-time it could achieve before reverse engineering enabled competitors to market competitive products. There would be either fewer inventions or, at least, less public disclosure of inventions, or both.

The threat of retrospective treble damage awards for refusing to license is even more serious than the concerns that have been expressed about the wisdom of legislation for compulsory

licensing. At least compulsory licensing, if required by statute, puts companies on notice that if their investment produces patentable inventions, their investment return is limited to their license royalties plus their profits from marketing products in competition with licensees. That will normally reduce the profits available from exclusive marketing of products, but even if the reduction were substantial, its economic impact would be less inhibiting to research investment than multiple treble damage awards for the profits not earned by potential competitors.

Even if in some industries the aggregate size of damage awards for a refusal to license would not exceed the reduction in profits caused by compulsory licensing, a statutory requirement of licensing would be a known factor to be considered when companies decide the amount of investment appropriate for research. Perhaps the profit reduction would be difficult to estimate, but at least the certainty of the licensing requirement would assist planning not only as to the level of research investment, but also as to the subsequent determination of product prices and license royalty rates.

On the other hand, treble damage awards for a refusal to license would inject major uncertainty into research investment decisions. When those decisions are made, no one can be sure that any one research effort will yield success. See Turner, "The Patent System and Competitive Policy," 44 N.Y.U. L.Rev. 450, 459-60 (1969). But some estimates can be made as to the likely return on capital from a given level of research investment. Those estimates could not possibly take into account the likelihood of antitrust damage awards at some future time. If products are developed and achieve success in the marketplace, a decision to grant or refuse licenses would still have to weigh, on pain of treble damage awards, the chances that a fact-finder may one day agree with a potential competitor's definition of the relevant market, claim of monopoly power, and allegation of willful acquisition or maintenance of monopoly power. The inhibiting effect of both the size of damages awards and the uncertainty of their imposition would seriously frustrate achieving the objectives of the patent laws.

Some may contend that these considerations prove too much, that they point toward the elimination of any treble damage awards for antitrust violations, or at least toward their elimination in any case not fully anticipated by a prior adjudication. Whatever one may think of the legitimacy of treble damage awards when a "modest extrapolation of the settled principles of *Alcoa* and *United Shoe*" is applied to "new facts," *Berkey Photo, Inc. v. Eastman Kodak Co., supra,* 457 F.Supp. at 438, the case for imposing damage liability under § 2 is far less substantial when the claimed violation is a unilateral refusal to license a patent. The exercise of that prerogative is a corollary of the explicit statutory grant of the right to exclude others from making, using, or selling the patented invention. 35 U.S.C. § 154. To deny treble damage liability for a monopolist's unilateral refusal to license patents places no limitation on the utility of the private damage action to deter any exclusionary conduct that is not grounded in the very structure of the patent laws. To impose such liability poses a threat to the progress of science and the useful arts not warranted by a reasonable accommodation of the patent and antitrust laws.

Thus, § 2, as was the case with § 1 and § 7, provides no basis for the imposition of damage liability upon Xerox for the profits SCM would have earned had it been granted plain paper copier patent licenses in January, 1969. Whether or not the jury's findings provide any basis for equita-[1015]ble relief,[41] they are not a valid basis for damage liability with respect to SCM's 1969 exclusion claim. This conclusion makes it unnecessary to consider Xerox's further contentions that the damage evidence is too speculative even under the *Bigelow* standard, or that specific items of claimed damages, especially

41 The appropriateness of equitable relief, if any is reasonably required beyond the terms of the FTC consent decree, can best be considered after the Court of Appeals, upon the inevitable appeal from the judgment disallowing money damages, has an opportunity to determine on this fully developed record whether any violations, creating liability at least for equitable remedies, have been validly found.

the award for lost net going concern value, must be disallowed, or that its defense of avoidable consequences, partially upheld by the jury, is valid.

IV. *The MUP Marketing Claim*

The evidence disclosed that in 1967 Xerox acknowledged that it was facing competition in the marketing of its plain paper copiers from the volume discount plans (fleet plans) first offered in 1966 by the manufacturers of coated paper copiers, including SCM. Xerox was marketing a line of copiers with some models, such as the 2400 and 3600, operating at high speeds and typically used for high monthly copy volumes, and other models, such as the 914 and 813, operating at lower speeds and typically used for lower monthly copy volumes. The other companies' coated paper copiers, operating at low speeds and typically used for low monthly copy volumes, competed with Xerox's lower speed machines. Thus the fleet plans offered by the coated paper copier companies posed a threat of taking business only from Xerox's lower speed machines.

Xerox responded to its competitors' volume discounts with a volume pricing plan of its own, known as Machine Utilization Plan, or MUP, which offered a discount from Xerox's regular billing charge. Xerox typically leased its machines to customers, charging monthly minimums for the use of the machine plus a charge for each copy made. The per copy charge usually declined if large numbers of copies were made from a single document. A customer agreeing to MUP signed a contract to achieve at least a specified level of annual billing charges. Three levels were established entitling the customer to increasing discounts on his entire annual billing. The average discount was 22%. If the customer failed to have enough copy volume during the year to achieve the targeted annual billing figure, he was billed at the less favorable rate applicable to the next lower MUP annual billing level. If his annual billing fell below the lowest MUP annual billing level, he was billed at

regular prices. A customer was entitled to count toward his annual MUP billing level the copies made on his Xerox machines at whatever locations the customer installed them. However, there was a minimum billing charge for each machine (above the regular leased machine use charge) to insure that customers did not lease numerous machines on which few copies were made.

The principal feature of MUP, on which SCM based its claim of antitrust violation, was the fact that the customer was entitled to use any combination of Xerox models he wished in order to meet his MUP commitment. For example, a customer with an annual MUP commitment of $1 million could qualify for the MUP rate if he incurred $1 million of billing on only high speed 3600's, or if he incurred $500,000 of billing on high speed 3600's and $500,000 of billing on high speed 2400's, or if he incurred $980,000 of billing on high speed 3600's and 2400's and $20,000 of billing on low speed 813's.

The evidence also disclosed that when Xerox first created MUP, it did not announce it to the public as an available price plan, but offered it selectively to customers who were threatening to cancel their Xerox low volume machines. The selective offering of MUP plans continued for two or three years and was replaced by general availability of the MUP pricing plan. MUP**[1016]** was discontinued in 1975,[42] and replaced by the XCP plan, a volume discount rate applicable to a customer's aggregate billing on Xerox machines of any one model.[43]

SCM contended that MUP violated the antitrust laws in three ways. First SCM contended that MUP operated in practice as a tying arrangement in violation of § 3 of the Clayton Act, 15 U.S.C. § 14. SCM conceded that no Xerox

42 Xerox agreed to discontinue MUP as part of the FTC consent decree. That fact was not presented to the jury.

43 SCM made no claim that XCP was a tying arrangement in violation of § 3 of the Clayton Act, but did claim that Xerox used XCP to foreclose competition or gain a substantial competitive advantage in violation of § 2. The jury rejected this contention. (Question 56).

customer was required to take a low speed machine as a condition of obtaining high speed machines at the discount rate. Nevertheless, SCM contended that in practice the effect of MUP was to coerce users of Xerox high speed machines to take some Xerox low speed machines. Second, SCM contended that Xerox employed MUP to foreclose competition or gain a competitive advantage, thereby violating § 2 of the Sherman Act. Third, SCM contended that MUP was an agreement in restraint of trade in violation of § 1 of the Sherman Act.

The jury found that MUP did have a coercive effect upon customers (Question 43) and that the effect of MUP was to tend to create a monopoly or substantially lessen competition in a relevant market or sub-market (Question 44), thereby completing the elements of a § 3 violation. The jury also found that Xerox employed MUP to foreclose competition or gain a substantial competitive advantage (Question 45). Since the jury had found that Xerox had monopoly power in a relevant market as of 1969 (Question 3a), the response to Question 45 completed the elements of a § 2 violation. The jury found MUP was not an unreasonable restraint of trade (Question 47), thereby rejecting the § 1 claim.

SCM made two separate claims for damages based on MUP, a "lost placements" claim and a "pricing" claim. The "lost placements" claim was for lost profits on the placement of SCM coated paper copiers that SCM claimed it would have made but did not make because of MUP. The "pricing" claim was for the lost profits resulting from the fact that SCM charged lower prices to its large customers (K accounts) who were also MUP customers than it charged its K account customers who were not MUP customers. SCM contended that its own price differential was caused by MUP. The jury found that MUP was a proximate cause of some SCM losses attributable to lost placements (Question 52) and determined that the amount of damages on this part of the MUP claim was $230,874 (Question 53). The jury also found that MUP was not a proximate cause of any SCM losses attributable to SCM's own lower pricing to its K account customers who were also MUP customers (Question 54).

Xerox challenges the legal validity of the § 3 and § 2 determinations and the damage award. The principal attack on the violation findings is that MUP is not a tying arrangement as a matter of law. Reliance is placed on *Northern Pacific Ry. v. United States,* 356 U.S. 1, 6 n. 4, 78 S.Ct. 514, 518, 2 L.Ed.2d 545 (1958): "Of course where the buyer is free to take either product by itself there is no tying problem even though the seller may also offer the two items as a unit at a single price." It is undisputed that Xerox high speed machines were available at the MUP discount rate without any requirement that Xerox low speed machines also be obtained.[44]

[1017] In SCM's view the absence of a formal requirement that users of high speed machines obtain some low speed machines in order to receive the MUP discount is not decisive. SCM contends that if the economics of the situation effectively coerce a customer to take some Xerox low speed machines in order to get the MUP discount on his Xerox high speed machines, a tie has been established. Reliance is placed on *United States v. United Shoe Machinery Corp.*, 264 F. 138 (E.D.Mo.1920), *aff'd,* 258 U.S. 451, 42 S.Ct. 363, 66 L.Ed. 708 (1922), and *Advance Business Systems & Supply Co. v. SCM Corp.*, 415 F.2d 55 (4th Cir. 1969).[45] Undisputed evidence

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44 Similarly, Xerox low speed machines were available at the MUP discount rate without any requirement that Xerox high speed machines also be obtained. However, as is true with any volume discount, MUP was attractive only to large volume customers, and most of Xerox's high volume customers did most of their photocopy work on high speed machines. Thus MUP was attractive to many users of high speed machines. But it remained true in theory, though unlikely in practice, that any customer who anticipated using Xerox low speed machines at enough different locations to produce substantial aggregate volume could obtain the MUP discount rate by using only Xerox low speed machines.

45 Both of these decisions must be extended somewhat to support SCM's claim. In both cases the factual contexts showed that the tying product, though available without the tied product, was not available on equally favorable terms. In this case, the allegedly tying product (high speed machine) is available on precisely the same terms, with or

(footnote continued on next page)

showed that about two-thirds of Xerox's MUP customers met their MUP commitment levels solely from the use of high speed machines. That left about one-third of the customers who in fact met their MUP commitment levels by a combination of high speed and low speed machine usage. Of course, some of these customers may have used Xerox low speed machines because they preferred them to competitive coated paper copiers. Nevertheless, SCM contends that some portion of these customers used Xerox low speed machines not because of product preference but because they needed to place some volume of photocopying on Xerox low speed machines in order to meet their MUP commitment level and avoid loss of the MUP discount on their entire annual billing.

The jury was instructed that "a tying arrangement results if the economic realities of the situation effectively coerce the customer into taking one product in order to get another product that he wants." (Tr. 43,997). Even if that standard is too lenient for a tying arrangement in violation of § 3 of the Clayton Act, see *Smith-Kline Corp. v. Eli Lilly & Co.*, 575 F.2d 1056 (3d Cir. 1978), it probably describes conduct that may be found to violate § 2 by a company that has monopoly power in a relevant market.[46] *Ibid.* Such a company **[1018]**

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without the allegedly tied product (low speed machine); the factual context indicates at most that some customers feel coerced to take the low speed machines because they anticipate that their high speed machine billing will not be sufficient to qualify for the MUP discount rate, or because they are uncertain during the billing year whether their high speed billing volume will be sufficient.

46 There is a further problem with considering MUP a sufficiently coercive arrangement to violate either § 3 of the Clayton Act or § 2 of the Sherman Act. This appears if consideration is given to two groups of MUP customers who used Xerox low speed machines: willing users, who preferred Xerox low speed machines to competitors' machines, and unwilling users, who preferred competitors' machines, but used Xerox low speed machines to meet their MUP commitment level. The unwilling user of Xerox low speed machines can realistically be said to have been coerced by the MUP pricing plan. Of course, if he really wanted to use coated paper copiers for his low volume work, he had a

violates § 2 when it uses its power "to gain a competitive advantage" or "to foreclose competition." *United States v. Griffith*, 334 U.S. 100, 107, 68 S.Ct. 941, 92 L.Ed. 1236 (1948). The jury found that MUP was used for those purposes (Question 45). Even if a § 2 violation could be found, a further

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free choice that would have enabled him to switch his low volume work to coated paper copiers: all he had to do was increase his volume on high speed machines until he reached his MUP commitment level. That may not have seemed to the customer to be a sensible option, since it would have meant making copies he probably did not need. However, if the multiple model usage feature of MUP is condemned under the antitrust laws, this same customer is left in exactly the same situation. Since his high speed volume does not quite entitle him to the MUP discount, and if Xerox is prohibited from permitting him to meet his MUP commitment on more than one model, then the customer must increase his high speed machine volume in order to get the MUP discount.

But what about the willing customer of Xerox low speed machines if MUP is prohibited under the antitrust laws? He would like to complete his MUP commitment by using Xerox low speed machines, because he prefers them to coated paper copiers. If Xerox cannot permit him to count low speed machine volume toward his MUP billing, then he too must make unneeded copies on his high speed machines in order to get the MUP discount. He will be coerced to do something unwanted if MUP is changed to preclude multiple model usage, whereas he is not coerced at all so long as he has the freedom to select the models on which he will meet his MUP commitment.

In addition to this anomaly, there is the undeniable fact that even if MUP had a coercive effect upon some Xerox customers, it also afforded many others a freedom of choice that would not have existed without MUP: the freedom to select any one model or any combination of models of Xerox machines for the volume necessary to obtain the MUP discount.

Of course, this would not be the first paradox created by the antitrust laws, but courts should at least hesitate before condemning practices that increase a customer's freedom of choice. Perhaps it would nevertheless be appropriate to condemn MUP under the antitrust laws on the theory that any restriction on the free choice of some customers is outweighed by the assumed benefit to all customers if the absence of MUP leads to more competition between Xerox low speed machines and competitive machines, and if this competition in turn leads to lower prices.

issue remains whether, without testimony from a single Xerox customer that he was coerced by MUP to use Xerox low speed machines, SCM presented sufficient evidence to establish a § 2 violation.[47]

Even if the evidence afforded the jury a valid basis to find that MUP violated § 3 of the Clayton Act or § 2 of the Sherman Act, the damage award cannot support the entry of judgment. The jury was not given a sufficient basis from which it could reasonably conclude that the lost profits claimed by SCM were caused by MUP.

SCM estimated its damages on its MUP "lost placements" claim by examining the cancellation rates of Xerox low speed machines before and after 1967, the year MUP was introduced. The aggregate cancellation rate for all models in the 914 and 813 machine families had increased until it reached 8.4% in 1967. In the following years the aggregate cancellation rate declined. SCM assumed that if MUP had not been introduced, the cancellation rate for all Xerox lower speed machines would have remained at least as high as 8.4%. For each year after 1967, SCM started with the total number of Xerox lower speed machines placed with customers, applied to that number the assumed cancellation rate of 8.4%, and subtracted the total number of cancellations that actually occurred to reach an estimate of the extra number of Xerox machine placements that would have been lost to all coated paper copier competitors if MUP had not been introduced. Then SCM estimated the share of these placements that SCM would have achieved for its coated paper copiers, and finally estimated that profits on such placements would have been $3,980,000.[48]

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47 Apart from the claim that MUP had a coercive effect on some users of Xerox low speed machines and thereby violated § 2 as an unlawful competitive advantage, SCM also alleged that MUP violated § 2 because it was used selectively, and not announced to the public as a generally available pricing plan. To the extent that was true, the principal injury was suffered by Xerox customers who were eligible for MUP but did not receive its benefits.

48 While SCM's methodology was based on all post-1967 cancellations of Xerox low speed machines, the Court ruled that damages for

The jury award of $230,874 was indisputably based on a calculation that Xerox presented. (Deft. Ex. 11,924A). In an effort to demonstrate the implausibility of SCM's assumption that MUP caused the decline in the aggregate cancellation rates for Xerox low speed machines, Xerox analyzed the cancellation rates for each of the four models within the 914 and 813 machine families. This analysis showed that the cancellation rates for three of the models actually *increased* after the introduction of MUP, and the only decline occurred with the cancellation rate for the 813. Though Xerox contended that this circumstance, among others, demonstrated the invalidity of SCM's methodology, Xerox nevertheless calculated what SCM's lost profits would be if the SCM methodology, including all placement and profit assumptions, were applied only to the 813. Thus, Xerox assumed for the sake of argument that the 1967 cancellation rate for the 813 alone, 13.5% would continue beyond 1967, and only on that assumption calculated that SCM's methodology would produce a claim for lost profits of at most $230,874.

[1019] The legal standards in this area are well-known. Once a plaintiff has shown antitrust law violation and the fact that such violation caused him injury, he is accorded considerable latitude in estimating the amount of damages. *Bigelow v. RKO Radio Pictures, Inc., supra; Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 51 S.Ct. 248, 75 L.Ed. 544 (1931); *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359, 47 S.Ct. 400, 71 L.Ed. 684 (1927). But it is equally clear that the evidence must supply "a rational basis" for approximating the amount. *Herman Schwabe, Inc. v. United Shoe Machinery Corp.*, 297 F.2d 906, 910 (2d Cir. 1962).

The jury in this case was not given a rational basis for approximating the amount of whatever profits SCM lost because of MUP. Both the claim that MUP caused the damage

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placements lost prior to January 1, 1969, were barred by the statute of limitations. (Tr. 44,839-48).

and the claim as to the amount of damage rested on the assumption that MUP caused cancellation rates to decline that otherwise would have remained at the 1967 level. Yet the undisputed evidence showed that there was no rational basis for this assumption; indeed, it showed that the assumption was not true. The cancellation rates for three of the four low speed models increased after MUP, and the rate for only one model declined. That undisputed evidence rendered irrational the plaintiff's claim that the 1967 cancellation rate was a benchmark from which to estimate damages caused by MUP.

Even if the 1967 cancellation rate for the 813 alone were a valid benchmark from which to measure damages caused by MUP, SCM's methodology provided no rational basis for the further assumption that the entire decline in cancellation rate from the 1967 level was caused by MUP. Undisputed evidence showed that after 1967 the cancellation rate for non-MUP 813 machines, as well as for MUP 813's, declined from the 1967 rate for all 813's. (Deft. Ex. 11,587A). Obviously no portion of the decline in the cancellation rate for non-MUP machines was caused by MUP. Nevertheless SCM claimed that MUP caused the entire decline from the 1967 cancellation rate for all 813's to the 1968 cancellation rate for all 813's. Since MUP could not have caused part of the decline, it is irrational to claim it caused the entire decline.[49]

In specific terms, users of the 813's cancelled 4,022 fewer machines in 1968 than they had cancelled in 1967. (Deft. Ex. 11,924A). It may be that some of these machines were not cancelled because some users feared loss of entitlement to the

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49 Presumably some mix of factors caused non-MUP users of 813's to cancel in 1968 at a rate below the 1967 rate for all 813's. Similarly, some mix of factors, including MUP, presumably caused MUP users of 813's to cancel in 1968 at a rate below the 1967 rate for all 813's. Xerox's evidence suggested that among the factors causing some of the decline in the MUP 813 cancellation rate were a price increase for 813's in 1967 that raised the cancellation rate to an unusually high level and a post-1967 tendency of many customers to upgrade from Xerox 813's to Xerox 660's.

MUP discount. However, neither SCM's methodology nor its evidence provided any basis for determining or making an estimate of what number or percent of these machines were not cancelled because of MUP.[50]

A jury is entitled to consider estimates that have a reasonable basis in the evidence. For example, after SCM claimed that all 4,022 813 machines were not cancelled because of MUP, SCM estimated what share of these machines it would have replaced and also estimated what profits it would have made on its estimated share of placements. Whatever uncertainties inhered in those estimates are permissible under the *Bigelow* standard. But SCM cannot contend that the starting point for its calculation is just another estimate within permissible bounds. The claim is for losses caused by the impact of MUP upon users of Xerox lower speed machines. It is not rational to start a damage calculation for such **[1020]**losses by assuming that MUP caused cancellation rates of such machines to go down, when in fact the cancellation rates for three of the four models of such machines went up. And it is also not rational to assume that all of the decline in the cancellation rate for 813's was caused by MUP, when in fact the rate for non-MUP 813's also declined. In the absence of any rational basis for estimating the impact of MUP upon users of 813's, SCM cannot be awarded damages on its MUP "lost placements" claim.

V. *Conclusion*

As a result of the jury's factual findings rejecting many of SCM's claims for damages and the Court's conclusions of law that damage liability cannot validly be based on any of the jury's factual findings in SCM's favor, it is the ruling of this

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50 As SCM's witness in support of its MUP damage methodology conceded, "I'm quite sure that in every one of those numbers [cancellation rates for different years] there are elements that have some effect on competitive cancellation rates, but I don't have any way to separate out each of the elements." (Tr. 45,302).

Court that Xerox is not liable to SCM for any money damages. Both sides have indicated that any ruling disposing of all damage claims should be available for appellate review before trial court consideration of any claims for equitable relief and attorney's fees. This Court agrees that in the circumstances of this litigation, sound judicial administration dictates that the present voluminous record should not be supplemented by further evidence in support of claims for any particular equitable relief until a reviewing court has had an opportunity to consider whether any liability for equitable relief has been established.

The route to appellate review, however, is not entirely clear. One possibility is entry of a final judgment, pursuant to Fed.R.Civ.P. 54(b), "as to one or more but fewer than all of the claims . . . ." SCM's claims based on antitrust violation are clearly distinct from the severed Xerox claims of patent infringement and the SCM defense of patent invalidity.[51] Disposition of the antitrust claims would be sufficient for a Rule 54(b) judgment, and some of those claims have been finally adjudicated. Nothing further remains for consideration with respect to the 1964 exclusion claim, the Fuji-Xerox 2200 claim, the MUP and XCP marketing claims, and the 6740 marketing claim.[52] As to the 1969 exclusion claim, however, there is substantial doubt whether a denial of damages can support a final judgment on that claim as long as the possibility of equitable relief remains open. See *Liberty Mutual Ins. Co. v.*

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51 SCM's defense to the infringement claim based on patent misuse was not severed from the antitrust claims, since that defense raises the identical issues raised by the antitrust claims. It will be time enough to consider whether any Xerox conduct warrants withholding of infringement remedies after appellate review of the rulings made herein, in the event the infringement claims are pursued.

52 The jury's findings rejected all of these claims, except the MUP marketing claim, thereby eliminating any possible claim for equitable remedies. As to the MUP marketing claim, even if a violation occurred, the abandonment of the plan pursuant to the FTC decree, *see* note 42, *supra*, eliminates any possible claim for an equitable remedy.

Wetzel, 424 U.S. 737, 743 n. 4, 96 S.Ct. 1202, 47 L.Ed.2d 43 (1976); *Acha v. Beame*, 570 F.2d 57 (2d Cir. 1978); *Aetna Casualty & Surety Co. v. Giesow*, 412 F.2d 468 (2d Cir. 1969). However, the Second Circuit has indicated that in some circumstances a claim for a particular remedy, attorney's fees, may involve facts sufficiently distinct from the facts underlying a compensatory damage claim to warrant entry of a final judgment on the damage claim. See *Cinerama, Inc. v. Sweet Music, S.A.*, 482 F.2d 66, 70 n. 2 (2d Cir. 1973). Therefore, since the "no just reason for delay" standard of Rule 54(b) is plainly met in this case, it seems appropriate to direct the Clerk to enter judgment in favor of Xerox with respect to the 1964 exclusion claim, the Fuji-Xerox 2200 claim, the MUP and XCP marketing claims, and the 6740 marketing claim, and also to enter judgment for Xerox with respect to all of SCM's claims for damages with respect to the 1969 exclusion claim.

If rejection of all the damage claims with respect to the 1969 exclusion claim will not support a final judgment, pursuant to Rule 54(b), then a second possible route to appellate review is certification under 28 U.S.C. **[1021]** § 1292(b). The rejection of SCM's damage claims with respect to the 1969 exclusion claim involves several controlling questions of law as to which, for lack of precedent, there is substantial ground for difference of opinion, and it is clear that immediate appeal from the ruling disallowing such damages will materially advance the ultimate termination of this litigation. To whatever extent a reviewing court may conclude that the dismissal of SCM's claim for money damages on its 1969 exclusion claim and the dismissal of all its other antitrust claims lack finality, the rulings dismissing such claims on the merits are hereby certified for appellate review pursuant to 28 U.S.C. § 1292(b).[53]

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53 Surely the record has been sufficiently developed to avoid an obstacle to § 1292(b) review encountered in other circumstances. *See Gottesman v. General Motors Corp., supra*, 414 F.2d at 958.

If the Court of Appeals should conclude that any issue of fact necessary for decision of any issue of law in this case was submitted to the jury under a prejudicially incorrect legal standard or was otherwise

(footnote continued on next page)

APPENDIX A *

I. RELEVANT MARKET

1. As of January, 1964, did there exist a relevant market, as alleged by SCM, consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes _____
No __X__

2. As of January, 1964, did there exist a relevant market or a relevant sub-market, as alleged by SCM, consisting only of "convenience office copiers" using only *plain* paper?

Yes _____
No __X__

1a. As of January, 1969, did there exist a relevant market, as alleged by SCM, consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes __X__
No _____

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improperly determined, it is respectfully suggested that the Court consider the appropriateness of subsequent district court fact-finding on such issue, without a jury, either on the present record, or with such additions or deletions as the Court of Appeals may order in light of its consideration of evidentiary rulings. *See Memorex Corp. v. IBM Corp.*, 458 F.Supp. 423 (N.D.Cal.1978) (court fact-finding after jury disagreement in complex case); *Bernstein v. Universal Pictures, Inc.*, 79 F.R.D. 59 (S.D.N.Y.1978) (jury disallowed in complex case); *In re U. S. Financial Securities Litigation*, 75 F.R.D. 702 (S.D.Cal.1977) (same); *In re Boise Cascade Securities Litigation*, 420 F.Supp. 99 (W.D.Wash.1976) (same).

* This appendix includes only the questions answered by the jury. Some questions were withdrawn, and others were to be answered only if a preceding question had been answered "yes." Each question indicated which party had the burden of proof and whether the question was to be answered only if preceded by a "yes" answer to one or more previous questions.

2a. As of January, 1969, did there exist a relevant market or relevant submarket, as alleged by SCM, consisting only of "convenience office copiers" using only *plain* paper?

Yes X
No _____

II. 1964 EXCLUSION CLAIM

D. *Competitive Status*

12. In 1956 when Rank-Xerox was formed, were Xerox and the Rank Organisation potential competitors?

Yes _____
No X

13. In 1960 when Fuji-Xerox was formed, was Fuji Photo Film a potential competitor of either Xerox or Rank-Xerox?

Yes X
No _____

14. As of January, 1964, were Xerox, Rank-Xerox, and Fuji-Xerox potential competitors?

Yes _____
No X

E. *Section 1—Unreasonable Restraint of Trade*

15. As of January, 1964, was the 1956 Xerox-Battelle agreement an unreasonable restraint of trade?

Yes X
No _____

[1022]

16. As of January, 1964, was there an agreement, combination or conspiracy among Xerox and Battelle, the Rank Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox, or

some of them, to deny to others licenses to use plain paper copier patents throughout the world including licenses to use Xerox's plain paper copier patents in the United States?

Yes _____ (If you answer "yes," circle each company you find was a party to the agreement.)

No __X__

18. As of January, 1964, was there an agreement, combination or conspiracy among Xerox and Battelle, the Rank Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox, or some of them, to exclude other companies from the manufacturing and marketing of plain paper copiers throughout the world?

Yes _____ (If you answer "yes," circle each company you find was a party to the agreement.)

No __X__

F. *Section 7—Unlawful Acquisitions*

20. Was the probable effect of Xerox's acquisition of patents pursuant to the 1956 Xerox-Battelle agreement, when the agreement was made, substantially to lessen competition or to tend to create a monopoly in any relevant market or sub-market that you have found to exist?

(Check whatever market or sub-market, if any, you have found to exist and then answer this question only as to such market or sub-market, or both):

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes __X__
No _____

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes __X__
No _____

21. As of January, 1964, was the probable effect of Xerox's continued holding of patents acquired pursuant to the 1956 Xerox-Battelle agreement substantially to lessen competition or to tend to create a monopoly in any relevant market or sub-market that you have found to exist?

(Check whatever market or sub-market, if any, you have found to exist and then answer this question only as to such market or sub-market, or both):

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes __X__
No _____

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes __X__
No _____

G. *Proximate Cause and Injury to SCM*

22. As of January, 1964, did SCM have the intention, preparedness, and capability to enter into the development, manufacturing, and marketing of plain paper office copiers?

Yes _____
No __X__

30.* Would SCM have earned any cumulative profits from 1964 to 1976, (a) assuming that SCM entered into the develop-

* The reference to the Glidden merger in Questions 30 and 31 resulted from Xerox's contentions concerning SCM's 1967 acquisition of the Glidden Co. Xerox contended that SCM would not have been able or

(footnote continued on next page)

ment, manufacturing, and marketing of plain paper copiers in January, 1964, and (b) assuming that SCM did not stop its plain **[1023]** paper copier program at the time of the Glidden merger?

Yes X
No _____

31.** Would SCM have earned any profits *in 1976 alone,* (a) assuming that SCM entered into the development, manufacturing, and marketing of plain paper office copiers in January, 1964, and (b) assuming that SCM did not stop its plain paper copier program at the time of the Glidden merger?

Yes _____
No X

33. If SCM has suffered any damages because Xerox excluded SCM from entering into the development, manufacturing, and marketing of plain paper office copiers in January, 1964, or January, 1969, or both, should SCM *reasonably* have avoided such damages by developing, manufacturing, and marketing plain paper office copiers *without* licenses from Xerox to use Xerox's plain paper office copier patents?

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willing to continue a plain paper copying venture and to acquire Glidden, and would therefore either have ended the plain paper copier venture and pursued the Glidden opportunity or continued with plain paper copying and passed up the Glidden opportunity. Xerox further contended that SCM made more profits from the Glidden merger than it would have made in plain paper copying and was therefore not damaged even if excluded from plain paper copying in 1964. Questions 30 and 31 were framed to elicit jury fact-finding on SCM's profits under the 1964 exclusion claim in the event these Xerox contentions were legally insufficient.

** The jury was asked whether SCM would have earned profits in 1976 alone under the 1964 exclusion claim and under the 1969 exclusion claim (Questions 31a and 51) to provide a basis for computation of SCM's claim for net lost going concern value (Question 61), which involved a capitalization of 1976 profits from which was subtracted total investment.

Yes _____
No X

34. If SCM has suffered any damages because Xerox excluded SCM from entering into the development, manufacturing, and marketing of plain paper office copiers in January, 1964, or January, 1969, or both, should SCM *reasonably* have avoided such damages by continuing the 1964 lawsuit against Xerox to attack the enforceability of Xerox's plain paper copier patent licenses or by bringing a new lawsuit against Xerox in 1964 to obtain licenses from Xerox to use Xerox's plain paper copier patents?

Yes X
No _____

35. Was it possible prior to March 11, 1969, to make a commercially reliable xerographic plain paper copier without infringing the Carlson '699 corona charging patent?

Yes _____
No X

III. 1969 EXCLUSION CLAIM

A. *Section 2—Actual Monopolization*

3a. As of January, 1969, did Xerox have monopoly power, that is, the power to control prices or exclude competition, in any relevant market or sub-market you have found to exist?

(Check whatever market or sub-market, if any, you have found to exist as of January, 1969, and then answer this question only as to such market or sub-market, or both):

X In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes X
No _____

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes __X__
No _____

4a. As of January, 1969, did Xerox willfully acquire or maintain monopoly power in any relevant market or sub-market you have found to exist by conduct *other than* obtaining and exercising lawful patent power?

(Check whatever market or sub-market, if any, you have found to exist as of January, **[1024]** 1969, and then answer this question only as to such market or sub-market, or both):

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes __X__
No _____

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes __X__
No _____

5a. By January, 1969, did Xerox obtain patents from the United States Patent Office primarily for the purpose of blocking the development and marketing of competitive products rather than primarily to protect its own products from being imitated or blocked by others?

Yes _____
No __X__

B. *Section 2—Attempted Monopolization*

6a. As of January, 1969, did Xerox attempt to obtain monopoly power, that is, the power to control prices or exclude competition, in any relevant market you have found to exist by

conduct *other than* obtaining or exercising lawful patent power?

(Check whatever market or sub-market, if any, you have found to exist as of January, 1969, and then answer this question only as to such market or sub-market, or both):

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes __X__
No _____

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes __X__
No _____

7a. As of January, 1969, did Xerox have a specific intent to monopolize, that is, to acquire or maintain monopoly power in, any relevant market or sub-market you have found to exist by conduct *other than* obtaining or exercising lawful patent power?

(Check whatever market or sub-market, if any, you have found to exist as of January, 1969, and then answer this question only as to such market or sub-market, or both):

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes _____
No __X__

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes _____
No __X__

C. *Section 2—Conspiracy to Monopolize*

9a. As of January, 1969, was there a combination or conspiracy among Xerox, Battelle, the Rank Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox, or any of them, to monopolize, that is, to acquire or maintain monopoly power in, any relevant market or sub-market that you have found to exist by conduct *other than* obtaining or exercising lawful patent power?

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes __X__ (If you answer "yes," circle each company you find was a member of the conspiracy.)

No _____

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes __X__ (If you answer "yes," circle each company you find was a member of the conspiracy.)

No _____

(The jury circled Xerox, Rank Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox.)

10a. By January, 1969, did Xerox join the conspiracy described in Question 9a with the specific intent to acquire or main- **[1025]** tain monopoly power in any relevant market or sub-market that you have found to exist by conduct *other than* obtaining or exercising lawful patent power?

(Check whatever market or sub-market, if any, you have found to exist as of January, 1969, and then answer this question only as to such market or sub-market, or both):

__X__ In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes _____
No __X__

__X__ In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes _____
No __X__

D. *Competitive Status*

14a. As of January, 1969, were Xerox, Rank-Xerox, and Fuji-Xerox potential competitors?

Yes _____
No __X__

E. *Section 1—Unreasonable Restraint of Trade*

15a. As of January, 1969, was the 1956 Xerox-Battelle agreement an unreasonable restraint of trade?

Yes __X__
No _____

16a. As of January, 1969, was there an agreement, combination or conspiracy among Xerox and Battelle, the Rank Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox, or some of them, to deny to others licenses to use plain paper copier patents throughout the world including licenses to use Xerox's plain paper copier patents in the United States?

Yes _____ (If you answer "yes," circle each company you find was a party to the agreement.)

No __X__

18a. As of January, 1969, was there an agreement, combination or conspiracy among Xerox and Battelle, the Rank

Organisation, Rank-Xerox, Fuji Photo Film, and Fuji-Xerox, or some of them, to exclude other companies from the manufacturing and marketing of plain paper copiers throughout the world?

Yes _____ (If you answer "yes," circle each company you find was a party to the agreement.)

No X

F. *Section 7—Unlawful Acquisitions*

21a. As of January, 1969, was the probable effect of Xerox's continued holding of patents acquired pursuant to the 1956 Xerox-Battelle agreement substantially to lessen competition or to tend to create a monopoly in any relevant market or sub-market that you have found to exist?

(Check whatever market or sub-market, if any, you have found to exist as of January, 1969, and then answer this question only as to such market or sub-market, or both):

X In a market consisting only of "convenience office copiers" using both *plain and coated* paper?

Yes X
No _____

X In a market or sub-market consisting only of "convenience office copiers" using only *plain* paper?

Yes X
No _____

G. *Proximate Cause and Injury to SCM*

22a. As of January, 1969, did SCM have the intention, preparedness, and capability to enter into the development, manufacturing, and marketing of plain paper office copiers?

Yes X
No _____

23a. Prior to January, 1969, did Xerox engage in any conduct, *other than* obtaining or exercising lawful patent power, that had any tendency to exclude others from plain paper copying?

Yes X
No _____

[1026]

24a. Prior to January, 1969, did Xerox engage in any exclusionary conduct that included patent-related conduct, *other than* obtaining or exercising lawful patent power, that was a proximate cause of SCM's not entering into plain paper copying in January, 1969?

Yes X
No _____

24a-1. Please list or briefly describe whatever patent-related exclusionary conduct of Xerox, other than obtaining or exercising lawful patent power, you have found, in answering "yes" to question 24a, was a proximate cause of SCM's not entering into plain paper copying in January, 1969:

Answer: 1956 Battelle Agreement

27a. Was the 1956 Xerox-Battelle agreement or the acquisition by Xerox of patents pursuant to that agreement a proximate cause of SCM's not entering into plain paper copying in January, 1969?

Yes X
No _____

27a-1. Is your "yes" answer to question 27a the sole basis for your "yes" answers to questions 23a and 24a?

Yes _____
No X

30a. Would SCM have earned any cumulative profits from 1969 to 1976, assuming that SCM entered into the develop-

ment, manufacturing, and marketing of plain paper copiers in January, 1969?

Yes X
No _____

31a. Would SCM have earned any profits *in 1976 alone,* assuming that SCM entered into the development, manufacturing, and marketing of plain paper office copiers in January, 1969?

Yes X
No _____

32a. Was SCM's not entering into plain paper copying in January, 1969, a proximate cause of any of SCM's losses in *coated paper* copying?

Yes _____
No X

IV. FUJI-XEROX 2200 CLAIM

38. Did Xerox and Fuji-Xerox, by themselves or together with others, enter into any agreement or conspiracy pursuant to which Fuji-Xerox was prevented from marketing the Fuji-Xerox 2200 in the United States?

Yes _____
No X

41. Did SCM have the intention, preparedness, and capability to market the 2200 in the United States?

Yes _____
No X

V. MUP PRICING CLAIM

43. Under the MUP pricing plan, were the MUP customers of Xerox coerced into taking low volume or low speed Xerox

office copiers instead of the office copiers manufactured by other companies?

Yes X
No _____

44. Was the effect of the MUP pricing plan to tend to create a monopoly or substantially to lessen competition in a relevant market or sub-market?

Yes X
No _____

45. Did Xerox employ its MUP pricing plan to foreclose competition or gain a substantial competitive advantage?

Yes X
No _____

47. Were the MUP and XCP pricing agreements between Xerox and its MUP and XCP customers unreasonable restraints of trade?

Yes _____
No X

VI. 6740 CLAIM

48. Were any Xerox marketing practices that could reasonably be expected to injure SCM's efforts to market its 6740 plain paper copier used by Xerox to foreclose com-
[1027]petition or gain a substantial competitive advantage?

Yes _____
No X

(End of first stage of jury's deliberations)

50. What amount of damages, if any, proximately caused by SCM's exclusion from plain paper copying in January, 1969, do you find SCM is entitled to for cumulative profits not earned during the period from January 1, 1969, to December 31, 1976?

$11.5 million

51. What amount of profits, if any, do you find SCM would have earned during the year 1976 alone if it had not been excluded from plain paper copying in January, 1969?

$23.6 million

52. Was Xerox's MUP pricing plan a proximate cause of SCM's incurring losses by not placing some coated paper copiers?

Yes X
No _____

53. What amount of damages, if any, proximately caused by Xerox's MUP pricing plan, do you find SCM is entitled to for losses incurred by not placing some coated paper copiers?

$230,874.00

54. Was Xerox's MUP pricing plan a proximate cause of SCM's incurring losses by charging lower prices for coated paper copiers to SCM's MUP K account customers than to SCM's non-MUP K account customers?

Yes _____
No X

56. Did Xerox employ its XCP pricing plan to foreclose competition or gain a substantial competitive advantage?

Yes _____
No X

59. Was SCM's exclusion from plain paper copying in January, 1969, a proximate cause of any of SCM's 6740 losses?

Yes _____
No X

(End of second stage of jury's deliberations)

61. What amount of damages, if any, proximately caused by SCM's exclusion from plain paper copying in January, 1969, do you find SCM is entitled to for loss of net going concern value as of December 31, 1976?

$25.6 million

Appendix C

Judgment of the District Court

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

Civil Action No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

JUDGMENT

The above-identified action having come on for trial by a jury, the Honorable Jon O. Newman, United States District Judge, presiding; and,

The jury having returned its verdicts to the interrogatories presented to it by the Court; and,

The Court, after considering the jury's verdicts directed to the aforesaid interrogatories, filed its Memorandum of Decision;

It is therefore accordingly ORDERED and ADJUDGED that Judgment enter and hereby does enter for the Defendant, Xerox Corporation, dismissing on the merits the claims of the Plaintiff, SCM Corporation, with respect to its 1964 exclusion claim, the Fuji-Xerox 2200 claim, the MUP and XCP marketing claims, and the 6740 marketing claim; and,

It is further ORDERED and ADJUDGED that the Plaintiff, SCM Corporation, shall receive no money damages from the Defendant, Xerox Corporation, with respect to its 1969 exclusion claim.

Dated at Hartford, Connecticut, this 29th day of December, 1978.

SYLVESTER A. MARKOWSKI
Clerk, United States District Court

By:/s/ William D. Templeton
Chief Deputy

APPROVED.

By:/s/ Jon O. Newman
JON O. NEWMAN
U.S. District Judge

Appendix D

May 10, 1979, Opinion of the Court of Appeals

SCM CORPORATION,

Plaintiff-Appellant-Petitioner,

v.

XEROX CORPORATION,

Defendant-Appellee-Respondent.

No. 79-8018.

United States Court of Appeals,
Second Circuit.

Submitted May 1, 1979.

Decided May 10, 1979.

[599 F.2d 32]

[32] Before GURFEIN and MESKILL, Circuit Judges, and WYZANSKI, District Judge.*

PER CURIAM:

This is a motion by the plaintiff, SCM Corporation, not opposed by defendant, Xerox Corporation, for the allowance of appeals under 28 U.S.C. § 1292(b) and under Rule 54(b) of the Federal Rules of Civil Procedure.

SCM's civil antitrust suit against Xerox alleged its exclusion from the plain paper copying market and sought both money damages and injunctive relief. After a fourteen-month trial, the jury found for SCM on some of its claims and for Xerox on others. The jury found against SCM and in favor of Xerox on (1) an alleged exclusion beginning in 1964; (2) a denial of an oppor-**[33]**tunity to market the Fuji-Xerox 2200 copier; and (3) the impairment of SCM's marketing of the 6740 copier. The jury, on the other hand, returned a verdict in favor of SCM and against Xerox concerning (1) SCM's exclusion from the market beginning in 1969, for which the jury granted damages

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* The Honorable Charles E. Wyzanski, Jr., Senior District Judge, U.S. District Court for the District of Massachusetts, sitting by designation.

of $37.1 million; and (2) impairment of SCM's marketing of copiers by use of particular pricing plans (the "MUP pricing claim"), for which the jury awarded $230,874 in damages.

The District Court for Connecticut (Honorable Jon O. Newman, Judge) entered final judgment dismissing in their entirety the 1964 exclusion claim, the Fuji-Xerox 2200 claim and the 6740 marketing claim. The court also held that SCM was not entitled to money damages under § 4 of the Clayton Act, 15 U.S.C. § 15, either for the 1969 exclusion claim or for the MUP pricing claim. As to the MUP pricing claim, Judge Newman denied money damages because he determined that SCM had failed to submit rationally based damage estimates, so that the jury's award was speculative. As to the 1969 exclusion claim, the Judge denied money damages, as a matter of law, under Section 4 of the Clayton Act, 15 U.S.C. § 15, set aside the jury verdict for money damages, and deferred further evidentiary and other proceedings for the resolution of the proper prospective equitable relief under § 16 of the Clayton Act, 15 U.S.C. § 26. The Judge concluded his comprehensive opinion by holding that Xerox is not liable to SCM for any money damages but that "sound judicial administration dictates that the present voluminous record should not be supplemented by further evidence in support of claims for any particular equitable relief until a reviewing court has had an opportunity to consider whether any liability for equitable relief has been established."

The trial court recognized, however, that the route to appellate review was not entirely clear. He noted that some of the antitrust claims are clearly distinct from the severed Xerox claims of patent infringement and the SCM defense of patent invalidity and that since disposition of the antitrust claims was final, he would enter a Rule 54(b) judgment thereon. He recognized that with respect to the post-1969 exclusion claim "there is substantial doubt whether a denial of damages can support a final judgment on that claim as long as the possibility of equitable relief remains open."

He accordingly also certified an appeal pursuant to 28 U.S.C. § 1292(b), stating that the setting aside of SCM's damage claims with respect to the 1969 exclusion claim involves several controlling questions of law as to which, for lack of precedent, there is substantial ground for difference of opinion, and that immediate appeal from the ruling disallowing such damages will materially advance the ultimate termination of this litigation.

The judgments dismissing the claims against Xerox appear to be final for purposes of Rule 54(b). With respect to the division of the remedy between money damages and equitable relief on the 1969 exclusion claim, however, that judgment is not final because it may be simply a "partial adjudication of a single claim" and, hence, not appealable as a final judgment. *Liberty Mutual Insurance Co. v. Wetzel,* 424 U.S. 737, 96 S.Ct. 1202, 47 L.Ed.2d 435 (1976); *Acha v. Beame,* 570 F.2d 57, 62 (2d Cir. 1978).

We are not certain, however, that we can accept the § 1292(b) certification as a proper ground for appeal at this time, since we are not clear on the "controlling question of law." The District Court has not stated what it regards as the "controlling question of law;" and we do not know whether the District Court intended to hold that Xerox was "liable" on the post-1969 claim but that money damages were not available as a remedy, or whether the court decided merely that money damages were not a remedy without deciding the issue of liability. Since the scope of the appeal will depend upon such analysis, we remand for a further conclusion of law on this subject, with a request that the District Court itself formulate what it regards as "the controlling question[s] of law." The panel will retain jurisdiction of the motion pending further certification by the District Court.

Appendix F

May 18, 1979, Opinion of the District Court

SCM CORPORATION

v.

XEROX CORPORATION.

No. 15807.

United States District Court,
D. Connecticut.

May 18, 1979.

SUPPLEMENTAL OPINION

[474 F. Supp. 589]

NEWMAN, District Judge.

[590] This case is before the Court upon a remand from the Court of Appeals for "a further conclusion of law" in connection with a certification for interlocutory appeal pursuant to 28 U.S.C. § 1292(b). In a decision filed December 29, 1978, this Court considered what judgment should be entered upon the jury's responses to interrogatories in light of the applicable law. *SCM Corp. v. Xerox Corp.*, 463 F.Supp. 983 (D.Conn.1978). This Court ruled that of SCM's five claims pursued at trial, four should be dismissed in their entirety: the 1964 exclusion claim, the Fuji-Xerox 2200 claim, the MUP and XCP marketing claims, and the 6740 marketing claim. As to these claims, judgment was directed to be entered pursuant to Fed.R.Civ.P. 54(b), since other severed claims remained. *Id.* at 1020. As to the fifth claim, the 1969 exclusion claim, this Court ruled that partial judgment pursuant to Rule 54(b) should enter dismissing SCM's claims for damages, leaving undecided SCM's claim for equitable relief with respect to the 1969 exclusion claim. This Court also certified all of its rulings for interlocutory appeal pursuant to § 1292(b), in the event a reviewing court concluded any of the rulings would not support a final judgment within the meaning of Rule 54(b).

The Court of Appeals remanded on May 10, 1979. *SCM Corp. v. Xerox Corp.*, 599 F.2d 32 (2d Cir. 1979). The opinion states that the judgments dismissing the four claims against Xerox "appear to be final for purposes of Rule 54(b)." *Id.* at 33. As this Court apprehended, 463 F.Supp. at 1020, the dismissal of only the claim for damages with respect to the 1969 exclusion claim was considered not final, 599 F.2d at 33. In order to assist in determination of whether this Court's ruling with respect to the damage portion of that claim was appropriate for § 1292(b) certification, the Court of Appeals requested this Court to do two things. First, a conclusion of law is to be made as to "whether the District Court intended to hold that Xerox was 'liable' on the post-1969 claim but that money damages were not available as a remedy, or whether the court decided merely that money damages were not a remedy without deciding the issue of liability." 599 F.2d at 33. Second, this Court is requested to "formulate what it regards as 'the controlling question[s] of law.'" *Ibid.* (Brackets in original). The views of counsel have been expressed at a chambers conference.

1. As to the first matter, this Court concluded, and hereby reaffirms the conclu- **[591]** sion, that with respect to SCM's 1969 exclusion claim, SCM is not entitled to money damages and no decision has been made with respect to Xerox's liability. There are several reasons why this Court has found it thus far unnecessary to rule on Xerox's liability, unrelated to any particular remedy, and preferable to avoid such a ruling. First, it is by no means clear that SCM's claim for equitable relief will be pursued if the rejection of the claim for damages is upheld. Even if the claim for equitable relief is pursued, considerable uncertainty will arise as to whether SCM's current level of activity in the plain paper copying field is sufficient to entitle it to seek prospective equitable relief with respect to that field, and, if so, whether any equitable relief is warranted beyond the remedies already obtained by the Federal Trade Commission pursuant to a consent decree. It is possible that determination of these issues could be made preliminarily upon

a testing of the sufficiency of the plaintiff's offer of proof, but there is also the distinct possibility that such determination would require a protracted evidentiary hearing. In any event, rejection of the damage claim plus a subsequent determination that SCM is not entitled to equitable relief would obviate any determination of whether SCM has established Xerox's liability, unrelated to remedies.

Furthermore, determination of liability, unrelated to remedies, would probably require resolution of a large number of issues that might never require consideration by this or a reviewing court if the rejection of damage claims is upheld. For example, in rejecting SCM's contention that Xerox is liable for damages for violation of § 7 of the Clayton Act, this Court found it unnecessary to decide whether the evidence was sufficient to support the jury's implicit finding that a relevant product market was reasonably foreseeable at the time of the patent acquisitions from Battelle or whether that finding was so contrary to the weight of the evidence as to warrant a new trial. See 463 F.Supp. at 1001. Similarly, in rejecting SCM's contention that Xerox is liable for damages for violation of § 1 of the Sherman Act, this Court found it unnecessary to decide whether the evidence was sufficient to support the jury's implicit finding that the 1956 agreement terminated a sub-licensing obligation under which sub-licensing of xerographic patents for plain paper copying would have occurred, or whether that finding was so contrary to the weight of the evidence as to warrant a new trial. 463 F.Supp. at 1005.

Finally, a determination of Xerox liability at this point runs the distinct risk of precipitating a needless retrial of this protracted case. For example, a determination of whether Xerox is liable for a violation of § 2 of the Sherman Act would require consideration of the validity of the jury's finding that Xerox willfully acquired or maintained monopoly power in the relevant market. (Question 4a). The jury concluded that the 1956 Battelle Agreement was an important indicator of Xerox's conduct in violation of § 2. Indeed, the jury specifically found that this agreement was the only patent-related

exclusionary conduct that proximately caused SCM's not entering into plain paper copying. (Question 24a-1). Yet there is a substantial question whether Xerox did anything violative of the antitrust laws by entering into the 1956 Battelle Agreement. And there is a further substantial question whether a finding of § 2 liability can rest on a conclusion that the 1956 agreement was a violation of § 1 (Question 15a). Thus, an inquiry into liability, unrelated to remedy, might reach the conclusion that § 2 liability has not been validly found because of invalid assessment of the lawfulness of the 1956 agreement, yet could be validly found based upon Xerox's post-1969 conduct, at and after the time it had monopoly power in the relevant market. Surely a retrial to determine § 2 liability upon a proper basis should not be pursued unless such liability will entitle the plaintiff to some relief.

SCM's other theories of liability also encounter issues that might preclude a finding of liability on the present record, but might support liability on fact-finding more circumscribed as to permissible legal theories. **[592]** But exploration of such issues and retrial of the claim on such narrowed theories will be avoided if SCM is determined not to be entitled to damages on even the present record, and cannot present a basis for entitlement to equitable relief. Moreover, in ruling on whether SCM is entitled to damages on the present record, the Court of Appeals may well indicate a view of the applicable law that will either preclude any claim for equitable relief or at least provide authoritative guidance for any subsequent consideration of equitable relief.

For all of these reasons, this Court continues to believe that sound judicial administration warrants a determination at this point only that SCM is not entitled to damages on the 1969 exclusion claim, without decision as to whether there is Xerox liability on this claim.

2. Responding to the Court of Appeals' second request, seeking a formulation of the controlling questions of law, is far more problematical. That is because in a case bristling with as

many issues as this one there is a variety of approaches available to be taken in deciding whether or not SCM is entitled to any damages on the 1969 exclusion claim. The damage claim presents a pyramid of issues, and it is possible to select controlling questions from the top, the bottom, or anywhere in between. But the choice of issues to decide creates additional problems of its own. For example, a controlling question from the top of the pyramid is: "Can a unilateral refusal to license patents violate the antitrust laws?" A negative answer to that question might well dispose of SCM's entire claim, but answering a question of that generality involves decision-making broader than necessary for decision in this case. On the other hand, an affirmative answer to that broad question might turn out to be needless dictum, if SCM loses on subsidiary issues farther down the pyramid. The broad question could be refined slightly to read: "Does § 4 of the Clayton Act impose damage liability for a unilateral refusal to license patents?" That formulation also risks deciding too much, if the answer is no, or too little, if the answer is yes.

At the other extreme, a large number of issues could be selected from the bottom of the pyramid. For example, as to each one of the jury's 54 verdicts, a controlling question could be whether the evidence was sufficient to support the verdict. Or a controlling question could be whether the instructions of law concerning each issue submitted to the jury were correct. But decision of all these questions might be totally unnecessary if SCM is found to have lost on issues farther up the pyramid.

It is also possible to frame controlling questions from the middle of the pyramid that concern each of the statutes on which SCM grounded a theory of liability. For example, SCM's two § 7 theories could be the subject of the following two controlling questions: "Do §§ 4 and 7 of the Clayton Act impose liability for damages upon a company that (a) acquires patents at a time when the relevant product market for a product embodying the patented inventions does not exist, but when it is reasonably foreseeable that the relevant product market will exist in the future, and the probable effect of the

acquisition of the patents will be to lessen competition or tend to create a monopoly in the prospective relevant product market, and (b) refuses to license the patents after the relevant product market comes into existence?" and "Do §§ 4 and 7 of the Clayton Act impose liability for damages upon a company that (a) holds patents it has previously acquired, and there exists a relevant product market for a product embodying the patented inventions, and the probable effect of the holding of the acquired patents will be to lessen competition or tend to create a monopoly in the relevant product market, and (b) refuses to license the patents?"

A controlling question with respect to the principal part of SCM's § 1 theory would be: "Do § 4 of the Clayton Act and § 1 of the Sherman Act impose liability for damages upon a company that (a) lawfully holds exclusive licenses to patents owned by a research institute and has an agreement with the research institute to use diligent **[593]** efforts to find sub-licensees for the licenses [*sic*] patents, (b) makes an agreement with the research institute whereby the company acquires title to the previously licensed patents and thereby extinguishes the prior sub-licensing obligation, and (c) thereafter refuses to license the patents?"

A controlling question with respect to the principal part of SCM's § 2 theory would be: "Do § 4 of the Clayton Act and § 2 of the Sherman Act impose liability for damages upon a company that (a) has willfully acquired or maintained monopoly power in a relevant market, and (b) refuses to license its patents?"

It would also be possible to frame controlling questions that consider Xerox's attack on SCM's damage computations. A broad question would be: "Is the evidence of SCM's estimated lost profits too speculative to support a damage award?" Or a narrower damage question would be: "In the circumstances of this case is an award of damages for loss of net going concern value lawful?"

Finally, a controlling question can be framed to consider Xerox's affirmative defense of avoidable consequences, which was sustained by the jury (Question 34): "Is it a defense to a claim for damages for violation of the antitrust laws that the company claiming damages suffered for lack of patent licenses should reasonably have avoided such damages by (a) continuing prior litigation against the company holding the patents, which included an attack upon the enforceability of the patents and which was settled without prejudice, or (b) bringing an earlier lawsuit to obtain licenses?" An affirmative answer to that question would also require consideration of the sufficiency of the evidence in support of the jury's finding.

As can readily be seen, the choice of controlling questions is extremely broad. This is a consequence of endeavoring to use § 1292(b) after a record has been fully developed, rather than at a preliminary stage, when the absence of a record often isolates one or a small number of precise issues of law, but sometimes renders them unsuccessful candidates for interlocutory review. See *Gottesman v. General Motors Corp.*, 414 F.2d 956, 958 (2d Cir. 1969). It would be ironic if in this case the presence of a fully developed record and the resulting plethora of available issues also precluded interlocutory review.

If interlocutory review is denied at this stage, the future course of this litigation includes two possibilities wholly inconsistent with sound judicial administration. One is a full hearing on SCM's claim for equitable relief that could well involve months of trial time. SCM has sought wide-ranging equitable relief including a dismantling of Xerox's foreign arrangements and a break-up of its domestic operations. A second equally unattractive possibility is a new trial in the event this Court were forced to consider all possible subsidiary issues and concluded that some of the jury's verdicts were against the weight of the evidence or were submitted to the jury on theories partially invalid because of some of SCM's extravagant claims.

In light of all these conditions, this Court has concluded that the most appropriate controlling question of law to be formu-

lated in response to the request of the Court of Appeals is the fundamental question that governs the damage aspect of SCM's 1969 exclusion claim: "Based on the evidence presented, the trial court's instructions to the jury, the jury's answers to interrogatories, and applicable law, is the plaintiff entitled to entry of judgment for $111.3 million?" ($11.5 million of lost profits plus $25.6 million of lost net going concern value, all trebled). To this question, this Court has answered no, and has entered an order based upon that answer. That order should be reviewed under § 1292(b). In reviewing that order and answering the controlling question as framed, the Court of Appeals has ample leeway to resolve either a small number of very broad issues, or a large number of very precise issues, or to identify whatever it believes to be dispositive issues.

Whether plaintiff is entitled to $111.3 million on the 1969 exclusion claim is a controlling question of law as to which **[594]** there is substantial ground for difference of opinion, and an immediate appeal from the ruling of this Court, which answered that question in the negative, will in all likelihood materially advance the ultimate termination of this litigation. A controlling question within the meaning of § 1292(b) is not limited to threshold issues such as jurisdiction or sufficiency of a claim, which are a predicate for all future proceedings in a lawsuit. For example, both the Senate and House reports on the bill that became § 1292(b) illustrate as an example of an appropriate use of the new provision a ruling allowing or refusing joinder of a third-party defendant. S.Rep.No.2434, H.Rep.No.1667, 85th Cong., 2d Sess. (1958), U.S. Code Cong. & Admin.News 1958, p. 5255. That example plainly indicates that the controlling question that leads to a ruling appealable under § 1292(b) need not bear a jural relationship to subsequent issues in the case nor need it be an issue which, if resolved negatively, automatically ends the suit. A ruling against impleading a third-party defendant determines no subsequent issues between the original parties. This example also indicates that whether an immediate appeal may materially

advance the ultimate termination of the litigation can properly turn on pragmatic considerations. The House Report described as a proper case for interlocutory appeal "cases involving third party defendants where there would be no reason for continuing the actions if the third parties could not be held liable." H.Rep.No.1667, *supra*, at 1. So here, if it were authoritatively determined that SCM is not entitled to any money damages, there might well be no reason for continuing the action.

This is not a situation where an interlocutory appeal is urged on a preliminary issue that may evaporate in the course of further proceedings. See *Gottesman v. General Motors Corp.*, 268 F.2d 194 (2d Cir. 1959). Here, as explicitly recommended by the Court of Appeals in *Gottesman*, an important issue, SCM's entitlement to damages on the 1969 exclusion claim, was "severed . . . and tried . . . on the facts to a conclusion . . .." *Id.* at 197.

Whether or not SCM is entitled to judgment for $111.3 million is an issue that will be before the Court of Appeals either now or at some future time after consideration of equitable relief. Even if this Court should order a new trial as to any issue, on appeal from any judgment thereafter, there would still be presented the question of whether plaintiff was at this point entitled to a judgment for $111.3 million. The Court of Appeals is respectfully requested to accept certification of this question at this time.

The Clerk of this Court is directed to transmit promptly a copy of this Supplemental Opinion to the Court of Appeals.

Appendix F

May 25, 1979, Order of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the 25th day of May, one thousand nine hundred and seventy-nine.

PRESENT:

HON. MURRAY I. GURFEIN
HON. THOMAS J. MESKILL, *Circuit Judges*
HON. CHARLES E. WYZANSKI, JR., *District Judge*

79-8018

SCM CORPORATION,

Plaintiff-appellant-petitioner,

—against—

XEROX CORPORATION,

Defendant-appellee-respondent.

ORDER

A motion was made for the certification of the appeal under 28 U.S.C. § 1292(b). In a previous decision we asked the District Court to clarify its opinion in a certain respect and to

* The Honorable Charles E. Wyzanski, Jr., Senior District Judge, U.S. District Court for the District of Massachusetts, sitting by designation.

suggest what it deemed to be the controlling questions of law. The purpose was better to frame the issues that will be brought before the panel hearing the appeal and to avoid different approaches to what the issues are.

The District Court has commendably given us a rather full explanation pursuant to our earlier opinion, and we annex hereto a copy of the Supplemental Opinion of the Honorable Jon O. Newman, Judge.

On that basis, we accordingly accept the § 1292(b) certification to the extent that certain of the orders below may not have the requisite finality. With respect to other orders, the Rule 54(b) determination by the District Court will be sufficient.

/s/ Murray I. Gurfein
MURRAY I. GURFEIN, Circuit Judge

/s/ Thomas J. Meskill
THOMAS J. MESKILL, Circuit Judge

/s/ Charles E. Wyzanski, Jr.
CHARLES E. WYZANSKI, JR., District Judge
Sitting by designation

Filed
May 25, 1979
United States Court of Appeals
Second Circuit
A. Daniel Fusaro, Clerk

Appendix G

Judgment of the Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Docket No. 79-7017

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the twelfth day of March one thousand nine hundred and eighty-one.

Present:

HON. STERRY R. WATERMAN,
HON. HENRY J. FRIENDLY,
HON. THOMAS J. MESKILL,

Circuit Judges.

SCM CORPORATION,

Plaintiff-Appellant,

—v.—

XEROX CORPORATION,

Defendant-Appellee.

Appeal from the United States District Court for the District of Connecticut.

This cause came on to be heard on the transcript of record from the United States District Court for the District of Connecticut, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is affirmed and the action be and it hereby is remanded to said district court for further proceedings in accordance with the opinion of this court with costs to be taxed against the appellant.

A. DANIEL FUSARO, Clerk

by /s/ ARTHUR HELLER
Arthur Heller,
Deputy Clerk

Filed
March 12, 1981
United States Court of Appeals
Second Circuit
A. Daniel Fusaro, Clerk

Appendix H

Order of the Court of Appeals Denying Rehearing

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Docket No. 79-7017

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Court House, in the City of New York, on the third day of June, one thousand nine hundred and eighty-one.

Present:

HON. THOMAS J. MESKILL
HON. HENRY J. FRIENDLY
HON. STERRY R. WATERMAN

Circuit Judges

SCM CORPORATION,

Plaintiff-Appellant,

v.

XEROX CORPORATION,

Defendant-Appellee.

A petition for a rehearing having been filed herein by counsel for the

Upon consideration thereof, it is

Ordered that said petition be and it hereby is denied.

A. DANIEL FUSARO

by /s/ A. DANIEL FUSARO
Clerk

Filed June 3 1981
United States Court of Appeals
Second Circuit
A. Daniel Fusaro, Clerk

Appendix I

Statutes Involved

Statutes Involved

Section 1 of the Sherman Act, 15 U.S.C. § 1 (1976), provides:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Section 2 of the Sherman Act, 15 U.S.C. § 2 (1976), provides:

> Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

Section 4 of the Clayton Act, 15 U.S.C. § 15 (1976), provides:

> Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

In pertinent part, Section 7 of the Clayton Act, 15 U.S.C. § 18 (1976), as amended by the Act of September 12, 1980, Pub. L. No. 96-349, § 6(a), 94 Stat. 1157-58, provides:

> No person engaged in commerce or in any activity affecting commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no person subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another person engaged also in commerce or in any activity affecting commerce, where in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.
>
> No person shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no person subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of one or more persons engaged in commerce or in any activity affecting commerce, where in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition, of such stocks or assets, or of the use of such stock by the

voting or granting of proxies or otherwise, may be substantially to lessen competition, or to tend to create a monopoly.*

. . . .

---

* Prior to the 1980 amendment, 15 U.S.C. § 18 (1976) provided in pertinent part:

> No corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.
>
> No corporation shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of one or more corporations engaged in commerce, where in any line of commerce in any section of the country, the effect of such acquisition, of such stocks or assets, or of the use of such stock by the voting or granting of proxies or otherwise, may be substantially to lessen competition, or to tend to create a monopoly.
>
> . . . .

No. 80-2092

Office-Supreme Co
F I L E
JUL 10 1

IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

SCM CORPORATION,

Petitioner,

—v.—

XEROX CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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COUNTERSTATEMENT OF QUESTION PRESENTED

Did the court of appeals correctly hold that the antitrust laws do not prohibit a company with no market power whatsoever from acquiring valid patents from a non-competitor research organization at a time prior to the commercialization of the patented inventions and long before the advent of a relevant product market when, years after the acquisition, the acquiring company develops a product embodying the patented art, a relevant market embracing that product comes into existence and, by virtue of the acquired patents and other valid patents covering the acquiring company's own inventions, the company achieves monopoly power in that market?*

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* Pursuant to Supreme Court Rule 28.1, Xerox, a New York corporation, states that it has no parent or affiliates. Xerox has one United States subsidiary which is not wholly owned—Rank Xerox Business Equipment, Inc., a Delaware corporation. Xerox also has other subsidiaries, as defined by the Securities and Exchange Commission, in a number of foreign countries: Xerox do Brasil, S.A.; Xerox de Mexico, S.A. de C.V.; Xerox del Peru, S.A.; Xerox de Venezuela, C.A.; Xerox de Colombia, S.A.; Rank Xerox Limited; Rank Xerox Holding B.V.; Rank Xerox Manufacturing (Nederland) B.V.; Rank Xerox Fabrikations G.m.b.H.; Societe Industrielle Rank Xerox S.A.; Fuji Xerox Co., Ltd.; Office de Transformation Papetiere S.A.; Rank Xerox Espanola S.A.; Rank Xerox (N.Z.) Ltd.; and Rank Xerox (Australia) Pty. Ltd.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1980

No. 80-2092

SCM CORPORATION,

Petitioner,

—v.—

XEROX CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

The Petition does not present any issue warranting review by this Court. This case concerns the application of the antitrust laws to a unique set of circumstances highly unlikely to recur: the acquisition of concededly valid patents from a non-competitor research organization prior to the commercialization of the patents into a new product—where the research organization and the original inventor have previously tried in vain for years to persuade others to invest in the development of the invention; where the company that ultimately acquires the patents sponsors further work at the research organization and itself simultaneously engages in costly and important research and development leading to patentable discoveries and ultimate commercialization of the invention; where the acquisition takes

place years before the product is developed; where more years elapse before a relevant market comes into being; and where the product eventually revolutionizes the market, so that the acquiring company, by virtue of its patent protection, achieves monopoly power.

Not only is there no reason to believe that a case involving such an extraordinary congeries of facts will arise in the future, but the court of appeals was eminently correct in holding that there was no antitrust violation on those facts. For a patent acquisition made by a company with no market power whatsoever, four years before it commercializes the patented technology and at least eight years before the evolution of a relevant market, cannot violate the antitrust laws without subverting the patent system and its underlying public policy of stimulating invention—a policy which "runs no less deep" than the policy of free competition reflected in the antitrust laws. *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 221 (1980).

STATEMENT OF THE CASE

This case involves the antitrust legality of Xerox' 1956 acquisition of patents covering xerography, a process ultimately embodied in the first plain paper office copier, which entered the marketplace four years later in 1960 after an intensive thirteen-year research and development effort. The product proved to be a great commercial success—so much so that the jury found that, by 1969, it constituted its own economic submarket in which Xerox possessed monopoly power by virtue of the exclusionary force of the acquired patents and other patents covering Xerox' own inventions. Petitioner commenced this treble-damage suit because Xerox declined to license those patents for plain paper copying. As a result of the jury's verdicts, at this juncture petitioner's claim rests solely on the proposition that the 1956 acquisition was an act of monopolization, a contract in unreasonable restraint of trade and an unlawful asset acquisition—all assessed in a

relevant market that did not exist as late as 1964 but had emerged by 1969.[1] The court of appeals held that the challenged patent acquisition by a company devoid of market power—four years before the introduction of the first plain paper copier and at least eight years prior to the advent of a relevant market—was lawful when it was made and did not become unlawful by the passage of time.

THE FACTS

The Petition presents a warped and incomplete picture of the salient facts. Those facts, in brief summary, are as follows:

Chester Carlson invented the xerographic process in the late 1930's and was awarded four patents covering his invention (E 2867-68; E 3433; E 709-46; A 734-35).[2] As originally practiced by Carlson, the process was extremely crude and limited to the laboratory (E 3415-26). From 1940 through 1944, the inventor unsuccessfully approached 18 separate companies in an effort to interest a commercial enterprise in making the investment needed to develop the process into a marketable product (A 2523-24; E 3431). IBM alone rejected Carlson's offer "on three separate occasions, two of which involved an offer by Carlson to sell exclusive rights to all of his patents" (PA 5a; A 2520-22; E 3432).

The first company to evince any interest in xerography was Battelle Memorial Institute ("Battelle"), a non-profit research

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1 As the court of appeals explained, "[t]he relevant product market, which SCM claimed Xerox monopolized by 1964, allegedly consisted only of plain- and coated-paper copiers, and was described as the convenience office copier market. SCM also argued that plain-paper copiers by 1964 formed a relevant submarket over which Xerox acquired monopoly control. Xerox on the other hand argued that the relevant product market included offset, spirit, and mimeograph equipment. In any event, the jury found the markets suggested by SCM existed in 1969 but *not* in 1964" (PA 8a n.1; emphasis by the court).

2 Citations to the record conform to the form set forth in the Petition, p. 1 n.1.

organization "in the business of developing and improving technical inventions and in selling the rights thereon when patented . . ." (PA 5a; E 211). In 1944, Carlson granted Battelle an exclusive license (followed, ultimately, by a formal assignment) of his patents and designated Battelle his exclusive licensing agent (E 212-13).

Battelle continued to do laboratory work on the process and made a number of patented improvements. But since Battelle had never manufactured or marketed any product and did not contemplate doing so with xerography, it was still necessary to find a commercial investor. Between 1944 and 1947 Carlson and Battelle approached 36 companies, including IBM for the fourth time (PA 5a; E 3434-35; E 2180-99; E 3608-12; E 1485; A 2520-22; A 2717-18); but none was willing to risk the necessary time, money and effort on what was still a primitive laboratory process which required so much light and took so long to reproduce an image that commercial exploitation was not feasible (E 2896-97; E 1417; A 2525-27; A 2717-18; A 2535; A 2538).

Finally, The Haloid Company (now Xerox), a small, marginally profitable manufacturer of photographic equipment and supplies with limited capital and a speculative future, contacted Battelle and sought rights in xerography (A 858-62; A 3461-62; E 149-52; E 679-80; E 3430; A 2518-19; E 3408-09; A 2528-31). In January, 1947 Battelle granted Xerox a non-exclusive license (which, under certain conditions, would become exclusive) under all existing and future United States xerographic patents obtained by Carlson and Battelle. In return, Xerox agreed to (a) pay a royalty; (b) sponsor further research at Battelle; and (c) grant back to Battelle royalty-free rights to any xerographic patents resulting from Xerox' work or under its sponsorship (E 181-93; E 233-35). In 1948, Xerox' license became exclusive; Xerox agreed to "use diligent efforts to secure sublicensees to engage in research, development and commercialization of the inventions and patents"; and Xerox undertook to grant back to Battelle title to any xerographic

patents Xerox might obtain on its own inventions or on work it sponsored at Battelle (E 474-88).[3]

Commencing in 1947, Xerox and Battelle worked together to develop the rudimentary process so that it could be embodied in a xerographic copier and other commercial products. This was a massive task, given the complex nature of the process and the need to develop new technology to implement each step (A 2578-89; A 2600). Both companies made significant patented inventions, and there were numerous technical exchanges between them (E 208; E 1424-25; A 2818-19). By 1950 the joint development effort resulted in the first commercial product utilizing xerography—the "flat plate" machine (E 1493);[4] and in the middle 1950's Xerox introduced its second xerographic product—the "Copyflo".[5] SCM conceded below that neither product "found commercial acceptance as convenience office copiers, the product market that SCM claims Xerox dominated for over a decade" (PA 7a; *see also* PA 74a n.30).

In 1956, after nine years of joint Xerox-Battelle effort in developing xerography, Xerox acquired title to the basic Carlson patents; an unrestricted exclusive license under the Carlson and Battelle improvement patents with the right to their assignment in January, 1959; and the right to assignment of all future Battelle xerographic patents so long as Xerox spent at least $25,000 a year sponsoring xerographic research

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3 In 1951, the license was extended to include rights in foreign countries (E 495-96).

4 The "flat plate" machine, which consisted of a number of separate units, required 20 manual steps and three or four minutes to produce one copy of a single page (A 2567-70; A 897-98). Its cumbersomeness and slowness rendered it a failure as a copier, but it did achieve some market acceptability as a means for preparing paper masters for use with offset equipment (A 897-98; A 2571-73; A 2576-77).

5 The "Copyflo"—which was 7 feet high, 5 feet wide and 3 feet deep and weighed approximately 1 ton (A 2687)—made copies from a roll of microfilm onto a roll of paper. It was totally impractical as a copier (A 2685-86; A 3309-11).

at Battelle. In exchange, Battelle received 55,000 shares of Xerox stock and a cash payment commencing in 1959 and terminating in 1965 measured by a percentage of Xerox' sales (E 334-42). A fundamental motivation for the acquisition was the beneficial cash-flow effect produced by the amortization of the patents on Xerox' books, which freed additional funds for further research and development (A 934-35; E 2051-53).[6] In 1956, when the acquisition was made,[7] there was no plain paper copier;[8] there was no relevant market comprising convenience office copiers, let alone plain paper copiers (neither market would come into existence until some time after January, 1964); and Xerox had no market power whatsoever.

It was not until 1960, after overcoming a host of technological problems, that Xerox succeeded in developing and introducing the first plain paper copier—the 914. Even as late as 1959, however, the new product's success was far from a sure thing. Xerox had invited IBM to examine prototypes of the 914 and the smaller desk-top 813, and the world's largest business machine company initially expressed some interest in the possibility of working together with Xerox in the manufacture and marketing of the two machines (A 3551-52). But in early 1959, IBM rejected the proposition because its management consultant, Arthur D. Little & Co., had concluded that the 914 had "no future" and the 813 was "not a good business risk" (E

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6 Petitioner's statement (Petition, p. 21) that "[t]he 1956 Agreement had nothing to do with investment incentives" is therefore incorrect.

7 As the court of appeals recognized, while the Battelle improvement patents were not transferred to Xerox until January, 1959, that event "was a mere formality." Since Xerox obtained an unrestricted exclusive license in 1956, it "acquired the exclusionary power inherent in each of those patents" at that time (PA 32a n.14).

8 Six months earlier, in July, 1955, a Xerox development committee had concluded that the technology to produce such a machine was available and recommended a four-year program of machine design, development and production (A 1331; A 2972-73). Expressing doubt that the potential market for such a machine was "very large," Xerox' Chief Executive nevertheless authorized the program (E 3406; A 2978-79).

3413; E 3411). As the court of appeals pointedly noted, "at the very least the episode demonstrates that as of 1958 the achievement of commercial success in plain-paper copying was not a foregone conclusion" (PA 26a).

The 914, which was introduced in 1960, achieved enormous success in the marketplace and was followed in succession by other plain paper copier models.[9] All of these machines were protected by Xerox' patents—those it had acquired from Battelle and numerous others on inventions made by Xerox' own employees. It was Xerox' unilaterally arrived at policy not to license those patents to others for plain paper copying (A 3365-66).[10] As a result, the exclusionary power inherent in the patents conferred monopoly power upon Xerox as of 1969 (by which time, the jury found, the relevant markets asserted by SCM had come into existence).[11]

In stating that "Xerox's monopoly was not based on internally developed technology" (Petition, p. 2), petitioner implies that Xerox occupied the role solely of an investor and was not an inventor. Nothing could be further from the truth. One of petitioner's principal claims at the trial—which the jury

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9 Petitioner's assertion (Petition, p. 6) that Xerox' products were of poor quality is belied by their phenomenal success in the marketplace. *See* Berkey Photo, Inc. v. Eastman Kodak Co., 603 F.2d 263, 286-87 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980). The trial record is replete with evidence of the high quality of Xerox' products and the market acceptance they received (*e.g.*, A 3273; A 3106-07; A 3113; A 1399).

10 Xerox did, however, license its patents for all other xerographic applications, including coated paper copying (E 3539-40).

11 PA 112a-113a. Petitioner claims (Petition, p. 13 and n.13) that were it not for the entry of a consent order by the Federal Trade Commission in 1975 (pursuant to which Xerox agreed to license its patents), "there would be no other companies marketing plain paper copiers even today." This ignores the fact that IBM introduced a plain paper copier in 1970, and that IBM was followed by 3M (1971), Van Dyk (1971), Litton (1972), Saxon (1972), Addressograph-Multigraph (1973), Remington (1973), Savin (1973), A. B. Dick (1974), Dennison (1974), Canon (1974), Pitney Bowes (1974), and SCM itself (1974)—all prior to the entry of the consent order (E 3336-41).

squarely rejected (PA 118a)—was that by virtue of its own internal efforts Xerox sought to erect an impenetrable "patent thicket"—obtaining a large number of patents for the sake of blocking competitors rather than as a consequence of legitimate efforts to develop new and improved products and to protect its inventions from appropriation or blockage by others. As the court of appeals stated, "[t]he jury's specific finding that by 1969 Xerox had not obtained any patents primarily for the purpose of blocking the development and marketing of competitive products laid to rest any suspicion that either Xerox's internal R&D program or its R&D work subcontracted to Battelle was driven principally by anticompetitive animus" (PA 27a). While the patents acquired from Battelle were highly significant, 28 of the 42 patented inventions embodied in the 914 alone were made by Xerox inventors (E 3592-607); and as of December 31, 1970, 187 of the 220 (expired and unexpired) patents used in Xerox' plain paper copiers covered inventions by Xerox employees (E 3447). In this connection it is noteworthy that what petitioner wanted from Xerox was not simply a license under the Battelle patents, but an across-the-board license covering each and every xerographic patent in Xerox' portfolio (A 1673; A 4229), the overwhelming number of which were internally generated. The short of the matter is that Xerox made a critical contribution to the development of the plain paper copier as an inventor as well as an investor. To quote the court of appeals:

> "Xerox contributed in a very substantial way to the development of an automatic plain-paper copier by investing in research and development not only after 1956 but also for almost a decade before the [1956] agreement" (PA 30a).[12]

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12 From 1947 through 1955, Xerox spent approximately $3 million on xerographic research and development, $547,000 of which involved work sponsored at Battelle (E 3754; A 2114-15; E 2805). From 1956 through 1959, Xerox' expenditures were $6.3 million (E 3754; A 2114); and from 1960 through 1975, Xerox' R&D expenditures on xerography amounted to $761 million (*Id.*).

THE JURY'S VERDICTS

As tried in the district court, this case involved five separate damage claims premised on a variety of alleged antitrust violations (PA 43a-46a). Only two of those claims survived the jury's verdicts, and the Petition seeks review in this Court of only one: the claim that petitioner was unlawfully excluded from the manufacture and marketing of plain paper copiers as of January, 1969 because Xerox refused to grant it a plain paper copying license under its xerographic patents (all of which were assumed to be valid).[13] While petitioner advanced a number of legal theories in support of this claim, the jury's verdicts established, as the court of appeals ruled (PA 13a-14a), that the 1969 exclusion claim cannot be sustained if Xerox' 1956 acquisition of patents from Battelle was lawful. For the jury made a specific finding that the *only* patent-related exclusionary conduct (other than obtaining or exercising lawful patent power) which proximately caused SCM not to enter into plain paper copying was the 1956 Battelle agreement (PA 123a). Since the exclusion claim is premised solely on SCM's failure to obtain a patent license,[14] it follows that only patent-related exclusionary conduct could have caused it to suffer antitrust injury. *Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977).[15] And the jury's verdicts conclusively established that the 1956 Battelle acquisition was the only such conduct by Xerox which the jury believed violated the antitrust laws.

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13 A 880.

14 To quote the district court, "SCM sought the damages it would have avoided if Xerox had not refused SCM's requests in 1964 and 1969 for plain paper copier patent licenses. . . . SCM's entire exclusion damage proof consisted of the losses suffered by lack of licenses" (PA 43a, 91a).

15 As the district court observed, "SCM cannot predicate damage liability on any non-patent-related conduct because it neither claimed nor offered evidence that any such conduct, the post-employment covenants, for example, caused it any damage" (PA 90a-91a). *See also* PA 16a-17a.

Without ruling on Xerox' objection that the 1956 acquisition was lawful as a matter of law (A 4226-28), the district court submitted the legality of that transaction to the jury. This procedure accorded with the court's desire to submit all material issues to the jury in order to maximize fact finding, even though the court had "grave doubts as to several of SCM's theories" (PA 59a).[16] The jury found that the acquisition violated both Section 7 of the Clayton Act[17] and Section 1 of the Sherman Act.[18] Consonant with the district court's instruction (A 477) that if the 1956 agreement violated either of those statutes, Xerox willfully acquired monopoly power in violation of Section 2 of the Sherman Act,[19] the jury made that finding as well.[20] It went on to determine that, if SCM had entered into plain paper copying in January, 1969, it would have earned cumulative profits amounting to $11.5 million and would have had a going concern value of $25.6 million by the end of 1976 (PA 125a-26a).[21]

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16 *See also* A 4383. *Cf.* Broadway Delivery Corp. v. United Parcel Serv. of America, Inc., 1981-1 Trade Cas. ¶ 64,068 at p. 76,471 n.6 (2d Cir. 1981).

17 15 U.S.C. § 18.

18 15 U.S.C. § 1.

19 15 U.S.C. § 2.

20 On the other hand, the jury found that Xerox did not have a specific intent to monopolize, thereby rejecting SCM's charges of attempt and conspiracy to monopolize (PA 119a, 120a); it found that Xerox had not conspired with Battelle or with Xerox' foreign affiliates to deny plain paper copying licenses or to exclude other companies from plain paper copying (PA 113a, 114a, 121a, 122a); and it found that Xerox did not obtain patents on its own inventions primarily for the purpose of blocking the development and marketing of competitive products (PA 118a).

21 Both in the district court and the court of appeals Xerox contended that SCM's damage theory was so speculative that it should not have been submitted to the jury; and that, in any event, SCM was not entitled to recover for its alleged loss of going concern value. Neither court found it necessary to reach these issues. The district court noted, however, that it had "the most serious doubts as to whether the damage profile survives the *Bigelow* standard" (A 4212, citing Bigelow v. RKO Radio Pictures, Inc., 327 U.S. 251 (1946)), and that "the net going concern value claim was of exceedingly doubtful validity" (PA 47a n.12).

THE DECISIONS BELOW

Following the jury's verdicts, the district court addressed the legal issue of whether SCM was entitled to the entry of a damage judgment. Leaving for a later day the question of whether equitable relief might be available, the court concluded that Xerox was not liable to SCM for any money damages. While intimating that Xerox' 1956 patent acquisition did not violate the antitrust laws,[22] the court found it unnecessary to reach that question, holding that in no event could Xerox' unilateral refusal to license its patents under the circumstances of this case give rise to damage liability.

The Court of Appeals for the Second Circuit, exercising its discretion to entertain petitioner's interlocutory appeal pursuant to 28 U.S.C. § 1292(b), affirmed, holding that (a) in light of the jury's findings, SCM's 1969 exclusion claim could be sustained only if the 1956 Battelle patent acquisition violated the antitrust laws; and (b) the acquisition did *not* violate those laws.

The court of appeals labored under no illusion that all patent acquisitions are immune from the antitrust laws.[23] But it noted that, in assessing the legality of a patent acquisition, "the focus should be upon the market power that will be conferred by the patent *in relation* to the market position then occupied by the acquiring party" (PA 28a; emphasis by the court). Agreeing with Professors Areeda and Turner, the court stated that "whether limitations should be imposed on the patent rights of an acquiring party should be dictated by the extent of the power already possessed by that party in the relevant market

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22 "It is highly questionable whether a § 7 violation occurs at all when a company acquires patents prior to the existence of a relevant product market or acquires patents at a time when it has no market power in a relevant product market" (PA 74a).

23 "Patent *acquisitions* are not immune from the antitrust laws" (PA 22a; emphasis by the court).

into which the products embodying the patented art enter" (PA 28a, citing P. AREEDA & D. TURNER, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 819 (1978)). That being so, it was apparent to the court that the 1956 Battelle acquisition was dramatically different from the acquisition of a patent that substantially augments an existing competitor's market share (PA 22a).[24] "[T]he patents . . . were acquired in 1956, four years prior to the production of the 914, Xerox's first automatic plain-paper copier, and at least eight years prior to the appearance of the relevant market and submarket" (PA 25a). In such circumstances, the court held, "to impose antitrust liability upon Xerox would severely trample upon the incentives provided by our patent laws and thus undermine the entire patent system" (PA 30a). As for petitioner's argument that, under *United States* v. *E. I. du Pont de Nemours & Co.*, 353 U.S. 586 (1957), Xerox' continued "holding" of the acquired patents violated Section 7 of the Clayton Act in 1969 (13 years after the acquisition), the court ruled that the "holding" doctrine could not sensibly be applied to the lawful acquisition of patents:

> "Where a company has acquired patents lawfully, it must be entitled to hold them free from the threat of antitrust liability for the seventeen years that the patent laws provide. To hold otherwise would unduly trespass upon the policies that underlie the patent law system. The restraint placed upon competition is temporally limited by the term of the patents, and must, in deference to the patent system, be tolerated throughout the duration of the patent grants" (PA 36a).[25]

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24 The court cited as examples of such cases Kobe, Inc. v. Dempsey Pump Co., 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952); and United States v. Besser Mfg. Co., 96 F. Supp. 304 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952).

25 In light of its holding that the 1956 patent acquisition did not violate the antitrust laws, the court of appeals did not reach a number of other grounds urged by Xerox in support of the district court's judgment, *i.e.*, the evidential insufficiency of SCM's proof on the issue of proximate causation; the impermissively speculative nature of SCM's

REASONS FOR DENYING THE WRIT

I.

THE ISSUE PRESENTED BY THIS CASE IS HIGHLY UNLIKELY TO RECUR AND THUS HAS NO IMPORTANCE TO ANYONE OTHER THAN THE PARTIES

The dispositive issue in this case—the legality under the antitrust laws of Xerox' 1956 patent acquisition from Battelle—arises from the extraordinary history of the invention, development and commercialization of the xerographic process and the plain paper copier. Even a brief recapitulation of the pertinent facts clearly reveals the unique character of the patent acquisition at the heart of this case:

a. Despite years of effort, both the inventor of xerography, Chester Carlson, and his licensee and licensing agent, Battelle, were unable to interest any commercial enterprise in making the investment needed to commercialize the invention;

b. For a decade prior to the acquisition, on a continuing basis, Xerox engaged in costly and valuable research and development—both on its own and by sponsoring further work by Battelle;

c. At the time of the acquisition, Xerox possessed no product in what many years later would become the relevant market, and had no market power whatsoever;

d. Subsequent to the acquisition Xerox continued its developmental efforts and after four years of additional work introduced the first plain paper copier;

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proof of the quantum of its damages; and the legal validity of the jury's finding that SCM's exclusion damages should reasonably have been avoided under the doctrine of avoidable consequences—all of which had also been left unresolved by the district court, since it was unnecessary to reach them.

e. The acquisition was made more than eight years prior to the existence of either relevant market asserted by SCM and found by the jury;

f. At the time of the acquisition—indeed for several years thereafter—the successful development of a commercially acceptable plain paper copier was not a foregone conclusion, as was shown by IBM's rejection of Xerox' new product prototypes in 1959;[26]

g. The patents that Xerox acquired from Battelle, including those sponsored by Xerox, together with numerous patents that Xerox lawfully obtained on its own inventions, turned out to be so significant that the plain paper copiers which were developed to embody their inventions ultimately created a new relevant product market, but not until at least eight (and possibly thirteen) years after the acquisition.

The court of appeals' holding that the 1956 acquisition did not violate the antitrust laws was carefully limited to the peculiar facts of this case[27]—a combination of circumstances

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26 While the jury implicitly found that the future emergence of a plain paper copier submarket at least eight years later was reasonably foreseeable in 1956 (*see* PA 29a n.13), Xerox argued in both lower courts that no reasonable jury could make such a finding. The court of appeals rejected that contention, stating: "While sufficient evidence was presented by Xerox to support a contrary finding, we are unable to hold, as a matter of law, that no rational jury could find that a reasonably foreseeable effect of the 1956 agreement was the eventual acquisition by Xerox of monopoly power in a relevant market" (PA 29a-30a). Nevertheless, IBM's rejection of the 914 and 813 in 1959 clearly supports the court of appeals' further conclusion that Xerox' ultimate success was not preordained (PA 26a).

27 The Second Circuit took pains to make it clear that the disposition of the case turned on its particular facts. Thus, in discussing SCM's claim under Section 2 of the Sherman Act, it wrote: "[W]e conclude that, *under the facts presented here,* the policies of the patent laws preclude the imposition of antitrust liability. . . . We believe that, *under the circumstances presented here,* to impose antitrust liability upon Xerox would severely trample upon the incentives provided by our patent laws and thus undermine the entire patent system" (PA 30a;

which is wholly unprecedented and most unlikely to occur again. Experience teaches that very few patents confer exclusionary power so great as to permit their owner to enjoy an economic monopoly. Ironically, SCM itself, in arguing that concern for investors' incentives did not justify a judgment for Xerox, vigorously asserted in the court of appeals that "very few" patents confer monopoly power.[28] Furthermore, occasions when a patent which does confer monopoly power is acquired from a non-competitor research organization by a company with no relevant product—and, *a fortiori*, no market power—will be even rarer. And such a rare acquisition is even less likely to be made at a time more than eight years before a relevant market comes into existence.

In short, given the "once in a lifetime" facts of this case, it does not offer this Court the opportunity to settle any significant recurring issue under the Sherman Act or the Clayton Act. The dispositive question here is of interest only to the parties. For that reason alone, there is no warrant for review by this Court.

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emphasis supplied). The court's holding under Section 1 was also limited to the particular facts: "Since we have already concluded in our § 2 discussion that *under the facts presented here*, the policies of the patent laws forbid the imposition of antitrust liability irrespective of the jury's implied finding that Xerox's success in plain-paper copying was foreseeable in 1956, SCM's argument under § 1 along these lines must likewise fail" (PA 32a; emphasis supplied). The ruling under Section 7 of the Clayton Act was likewise premised on the special facts of this case: "Where, as here, it is conceded that the relevant product market and submarket did not exist until eight years following the patent acquisitions and that Xerox possessed no power whatsoever in even the inchoate market and submarket until 1960 when it introduced its 914 copier, as a matter of law the 1956 agreement did not violate § 7 at the time it was made" (PA 35a).

28 "[V]ery few patents . . . dominate a substantial economic market . . . . The vast majority of patents carry very little market power" (SCM Br., pp. 122, 125).

II.

THE DECISION OF THE COURT OF APPEALS WAS CORRECT

The legality of Xerox' 1956 acquisition of patents from Battelle flows inexorably from the existence of the patent system and the incentives it provides to inventors and to those who invest in innovation. For this case involves a classic example of how the patent system is supposed to work. Induced by the patent law's offer of exclusive rights to useful inventions, Xerox invested in a thirteen-year pioneering research and development effort which transformed a raw laboratory invention into a revolutionary new product. In holding that the patent acquisition at the heart of this case was not unlawful, the court of appeals was clearly correct, and its decision does not merit consideration by this Court.

The Petition is grounded on a fundamental misconception. It states (pp. 13-14) that this Court "has never ruled that patents confer immunity from the antitrust laws." That is simply not so. This Court has specifically recognized that a valid patent monopoly confers an "exemption from the antitrust laws." *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172, 177 (1965). *See also Precision Instrument Manufacturing Co.* v. *Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816 (1945) (the patent monopoly is an "exception to the general rule against monopolies"); *United States* v. *Aluminum Co. of America*, 148 F.2d 416, 422, 430 (2d Cir. 1945) (Alcoa's original economic monopoly, obtained by virtue of two patent acquisitions, held "lawful"). The reason for this exemption is self-evident. Since the essence of a valid patent is the very power to exclude competition which is anathema to the antitrust laws,[29] one of these two

29 As the district court perceptively observed, "[t]he monopoly power condemned by § 2 of the Sherman Act is the power to exclude competition from a relevant market, . . . yet the power to exclude is precisely the power granted by the patent laws" (PA 65a). To quote this Court in Bement v. National Harrow Co., 186 U.S. 70, 91 (1902), "[t]he very object of these [patent] laws is monopoly."

complementary public policies must give way to accommodate the other. The only possible accommodation, if we are to maintain a patent system, is to exempt from the antitrust laws the lawful acquisition and enforcement of valid patents—an exemption which is vitally necessary to make the patent system work.

It is axiomatic that the patent system is designed as a stimulus to invention.[30] Equally important is the incentive that patents provide to investors, for without their time, money and effort the public in many cases would not achieve the tangible benefits of the technological innovation the patent laws are designed to stimulate. The court of appeals took note of this critical fact:

> "Investors . . . play a key role, if not an indispensable one today, in both the inventive process and commercialization of inventions. And it is fair to say, we think, that the contribution of the investor in both the funding of research that leads to inventions and the promotion that necessarily must follow to achieve successful commercialization is of comparable value" (PA 23a n.9).[31]

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30 *E.g.*, Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974) ("The patent laws promote this progress [of science and useful arts] by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development"); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964) ("Patents are not given as favors . . . but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention"); Mitchell v. Tilghman, 86 U.S. (19 Wall.) 287, 418 (1874) ("Patent laws have for their leading purpose the encouragement of useful inventions"); Grant v. Raymond, 31 U.S. (6 Pet.) 218, 241-42 (1832) ("It [a patent] is the reward stipulated for the advantages derived by the public for the exertions of the individual, and is intended as a stimulus to those exertions").

31 *See* Picard v. United Aircraft Corp., 128 F.2d 632, 642 (2d Cir.), *cert. denied*, 317 U.S. 651 (1942) (Frank, J., concurring); Mannington Mills, Inc. v. Congoleum Indus., Inc., 610 F.2d 1059, 1070-71 (3d Cir. 1979); F. M. Scherer, Industrial Market Structure and Economic Performance 448 (2d ed. 1980). To quote petitioner's expert witness, "by virtue of having a patent protection, you can usually find investors or people with money, people who have capital or companies who are

Petitioner's contention that Xerox' 1956 acquisition of as yet uncommercialized patents from Battelle violated the antitrust laws totally disregards this incentive to invest. While petitioner argues that patents do not confer any antitrust immunity, it inconsistently acknowledges the existence of an exemption when an inventor "wilfully acquires monopoly power" by securing a patent on his invention. This point was not lost on the court of appeals: "SCM itself admits [that] the procurement of a patent by the inventor will not violate § 2 even where it is likely that the patent monopoly will evolve into an economic monopoly" (PA 23a). But petitioner would not provide the benefit of the exemption to those who invest in inventions patented by others, even though the acquisition does nothing more than transfer a legal monopoly from one person to another without augmenting its economic force.[32]

If the patent system is to work—by providing incentives in the form of limited monopolies to inventors (and, necessarily to investors, if the inventors are to reap their promised rewards)—the antitrust laws cannot be applied to investors lacking any market power who acquire patents prior to their effective commercialization. Otherwise, no one could safely invest in developing a patented invention in the hope of achieving commercial success; for the greater the success, the greater the risk of a finding years later that the antitrust laws had been violated. In the words of the court of appeals, "[t]he

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willing to invest money in taking that baby invention and developing it into a practical commercial device" (A 976-77).

32 Petitioner's analogy (Petition, p. 21) to the distinction sometimes drawn by the antitrust laws between internal growth and expansion by acquisition is a false one. To be sure, a company with, say, ten percent of a relevant market may be permitted to double that share by internal expansion but not by acquiring another ten percent competitor. But the antitrust laws do not prohibit the acquisition by a *non*-competitor (neither actual nor potential) of a company with a twenty percent market share—where the only effect is to put the acquiring company into the shoes of the acquired. *Cf.* United States v. Marine Bancorporation, 418 U.S. 602 (1974). In the case at bar, of course, neither Xerox nor Battelle had *any* share of any relevant market at the time of the acquisition—an *a fortiori* case of legality.

patent system would be seriously undermined . . . were the threat of potential antitrust liability to attach upon the acquisition of a patent at a time prior to the existence of the relevant market and, even more disconcerting, at a time prior to the commercialization of the patented art" (PA 23a). It follows, as the court below held, that the antitrust legality of a patent acquisition must be determined in light of the facts as they existed when the acquisition was made. Assessing Xerox' acquisition on the facts as they existed in 1956, the court of appeals was plainly right in concluding that it fell within the policy of the patent laws and did not violate the antitrust laws.

The stubborn and incontrovertible fact is that the acquisition took place in 1956—four years before the introduction of the first plain paper copier and at least eight years before the advent of a relevant market. Xerox possessed no market power whatsoever in 1956; and it did not acquire any by virtue of its acquisition of the patents. All it obtained was the exclusionary power inherent in the patent grant—power which Xerox could meaningfully exercise only if the inventions eventually became embodied in a successful commercial product. Such power is precisely the reward offered by Congress to inventors and investors in order to stimulate innovation. It rests at the very core of the nation's patent policy. To argue, as petitioner does (Petition, p. 11), that the acquisition would violate the antitrust laws "[w]ere it not for 'the policies of the patent laws' " takes petitioner nowhere, since the patent laws are very much alive and well. What is more, the argument is unsound because the antitrust laws cannot sensibly be construed to prohibit the acquisition of any asset—a patent or anything else—by a company with no market power at a time long before the emergence of a relevant product market; and no court has ever suggested otherwise.[33]

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33 As the district court stated, "there is considerable doubt whether liability can be grounded under § 7 [of the Clayton Act] for the mere acquisition of any asset prior to the existence of a relevant product market" (PA 71a-72a).

Petitioner's contention (Petition, p. 17) that the acquisition was unlawful because it was not "reasonably necessary" to induce further xerographic development is equally untenable. Petitioner argues, in essence, that the acquisition was unnecessary because Xerox already possessed rights to practice the Battelle patents under its 1948 license agreement. In other words, petitioner would penalize Xerox for having spent almost a decade in a continuing research and development effort with Battelle prior to the 1956 acquisition. What is more, petitioner ignores the fact that the 1956 agreement, as Xerox reported to its shareholders at the time, was "vitally important" to the company's financial position because amortization of the patents produced a cash flow of more than $1 million annually—an amount that was "very large in relation to the amount of our profit" (E 2052-53). These additional funds were used by Xerox to further its development of the xerographic process and its application to plain paper copying.[34] Moreover, the legality of a patent acquisition cannot rationally turn on the acquiring company's "need" to obtain exclusive rights; for such a rule would invalidate all exclusive licenses of patents that ultimately confer significant market power (irrespective of the acquiring company's total lack of market power prior to the acquisition), since a non-exclusive license could always be granted to permit the practice of the invention.[35]

Nor does it matter whether Xerox' future commercial success was reasonably foreseeable in 1956. Success certainly was not inevitable. Battelle's 1955 annual report, written con-

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34 Prior to the introduction of the first plain paper copier in 1960, Xerox spent more than twice as much on xerographic research and development after the 1956 patent acquisition than it spent before. *See* p.8, n.12, *supra*.

35 The law does not oblige the would-be possessor of patent rights to bargain for the bare minimum. *See* United States v. Aluminum Co. of America, 148 F.2d 416, 422 (2d Cir. 1945), holding lawful Alcoa's acquisition of exclusive rights to a dominant patent over the objection of the Department of Justice that it could have obtained a non-exclusive license. *See* Brief for the United States at 240; Reply Brief for the United States at 15.

temporaneously with the acquisition, stated that "Carlson's basic patent expires in 1959 and the value of all improvements is an unknown quantity" (E 1475-76). And IBM's 1959 rejection of Xerox' new products as bad business risks with no future amply demonstrates that the future of plain paper copying was debatable. If Xerox was sufficiently prescient to foresee that its development work would bear fruit commercially, that would not be any reason to deprive it of the lawful monopoly provided by the patent system to those willing to take the risk of investing in and commercializing untried inventions.

Also unavailing is petitioner's reliance on the 1956 agreement's termination of Xerox' obligation to seek sublicensees under the Battelle patents. Xerox argued in both lower courts that there was insufficient evidence to support the critical factual predicate for SCM's argument—that absent the acquisition, Battelle would have required Xerox to grant plain paper copying licenses. Indeed, Xerox maintained that the evidence overwhelmingly established that, in the absence of the 1956 agreement, it would have enjoyed the fruits of its exclusive license and continued steadfast in its policy of not licensing others for plain paper copying without any overriding objection from Battelle. For the record stands uncontradicted that on a number of occasions prior to 1956 Xerox denied plain paper copying licenses to others and that Battelle, which was fully aware of Xerox' policy, never disagreed with it or sought to change it (A 1321-22; A 1331-32; A 1172; E 1506; E 1473-74).[36] Neither court found it necessary to reach the issue, but the district court noted that:

> "[S]ignificant issues would arise concerning the statute of limitations and the proper construction of § 7, as well as the issues of evidential sufficiency, if a damage award for profits not earned because of a license refusal could be

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36 This is not surprising since, as early as Battelle's 1949 annual report, it was the research organization's view that office copying was a field "under Haloid's jurisdiction" (A 895-96).

based on the prediction that had Battelle not sold the patents in 1956, it would have required their sub-licensing to SCM in 1969" (PA 75a).

Aside from the issue of evidential insufficiency, even if it were assumed that, absent the acquisition, Battelle would have compelled plain paper copying sublicensing, that would not spell illegality. For every time an important patent is sold or exclusively licensed, the transaction *ipso facto* eliminates anyone who might otherwise have received a license from the original owner.

Still another fallacy of petitioner's argument was exposed by the district court when it pointed out that the claimed sublicensing obligation[37] was superfluous to the legality of Xerox' 1948 and 1951 license agreements: Battelle could lawfully have granted Xerox an exclusive license in 1948 and made it worldwide in 1951 without requiring any sublicensing whatsoever;[38] hence, elimination of that obligation—the existence of which was unnecessary for legality—could not have been unlawful.[39] What is more, even if it were assumed that, absent the 1956

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37 At trial, Xerox contended that Xerox' sublicensing obligation was limited to xerography generally, that is, for xerographic applications other than plain paper copying. While the jury implicitly rejected this argument, Xerox' post-trial motion asserted that there was insufficient evidence to resolve the issue in favor of SCM—a point that neither the district court nor the court of appeals found it necessary to reach (PA 81a).

38 In the words of the district court: "As to embryonic technology, a decade prior to successful commercial application, exclusive patent licenses from a research institute to a commercial developer with no market power in the pertinent field cannot possibly be an unreasonable restraint of trade, even if the developer assumes no obligation to seek sub-licensees" (PA 81a).

39 As the district court put it: "If the 1956 agreement had not been made, Xerox would have incurred no liability under the antitrust laws by refusing to sub-license SCM or anyone else under the Battelle patents. . . . Since Xerox would have incurred no antitrust liability by refusing to sub-license the Battelle patents before 1956, it cannot incur antitrust liability thereafter by entering into a contractual arrangement that confirms its right to refuse to grant licenses" (PA 81a-82a).

agreement, Battelle would have required Xerox to license SCM under the *Battelle* patents, the patents on Xerox' *own* inventions would still have lawfully barred SCM's entry into plain paper copying—thereby breaking the chain of proximate causation requisite to any recovery by petitioner.

As for petitioner's final contention—that even if Xerox' original acquisition of the Battelle patents was lawful in 1956, its continued "holding" of those patents became unlawful under *United States* v. *E. I. du Pont de Nemours & Co.*, 353 U.S. 586 (1957), and *United States* v. *ITT Continental Baking Co.*, 420 U.S. 223 (1975)—the court of appeals was manifestly correct in holding that the doctrine of those cases cannot apply to a patent acquisition that was legal when made. A contrary rule would subject every patent acquisition to the risk that, if the patented invention is ultimately incorporated in a product that, after the passage of time, obtains a substantial share of a relevant market, the acquisition—though initially lawful—would become unlawful. Incentive to invest in the commercial development of innovative technology would be substantially inhibited if the price of success at the end of the road were antitrust liability. So long as such investment is encouraged by the law,[40] it would be counterproductive to apply a "holding" theory to patent acquisitions. Moreover, to invoke the *Dupont-GM* doctrine in a patent context would judicially shorten the 17-year term established by Congress for all patents. It plainly would make no sense to hold that if Chester Carlson had retained his patents—including his improvement patent covering corona charging which the jury found was indispensable to xerographic plain paper copying (PA 117a)—his lawful right to exclude others would have lasted until March, 1969, but that his transfer of those rights to Battelle and then Xerox gave rise to an antitrust violation. The law is not so perverse.

With respect to petitioner's statement (pp. 12, 25) that Xerox possessed monopoly power by virtue of the acquired

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40 This is in sharp contrast to the law's attitude toward corporate mergers which, while not necessarily prohibited, are not affirmatively encouraged.

patents 29 years after the first Carlson patent issued in 1940, thereby implying that Xerox possessed a monopoly for that period, the short answer is that there was no relevant market even as late as January, 1964; hence, Xerox had enjoyed such power for less than five years as of January, 1969.

In the final analysis, the court below correctly decided a unique case. The Petition does not present any issue worthy of review by this Court.

CONCLUSION

For all the foregoing reasons, respondent respectfully submits that the Petition should be denied.

Respectfully submitted,

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PROOF OF SERVICE

I, Stanley D. Robinson, attorney for Respondent herein, and a member of the Bar of the Supreme Court of the United States, do hereby certify that on the 10th day of July, 1981, I served copies of the foregoing Respondent's Brief in Opposition to Petition for Writ of Certiorari by delivering same by hand to Gordon B. Spivack, 25 Broadway, New York, New York 10004. I further certify that all parties required to be served have been served.

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No. 80-2092

IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

SCM CORPORATION,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

PETITIONER'S REPLY BRIEF

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PETITIONER'S REPLY BRIEF

Xerox's attempts to reargue a version of the facts rejected by the jury are unavailing, for this case turns entirely on questions of law. Both parties agree that, under the court of appeals' opinion, (1) all purchases of patents are exempt from the antitrust laws if made prior to the emergence of a relevant market and (2) all purchases of patents are exempt from the *duPont* rule, *i.e.*, the rule that the legality of an acquisition under the antitrust laws may be tested at the time its anticompetitive effects are demonstrable. (Br. Opp. 11-12, 18-19, 23).[1] The only questions presented in this Court are whether those exemptions—which immunize the wilful acquisition and maintenance of persistent, substantial monopoly power—are legally sound.

[1] The Brief in Opposition is referred to herein as "Br. Opp."; the Petition for a Writ of Certiorari is referred to as "Petition." Other citations are as set forth in Petition 1 n.1. Subsequent to the filing of the Petition, the decision below was reported officially; the citation is 645 F.2d 1195 (2d Cir. 1981).

Five days after the Petition for a Writ of Certiorari in this case was filed, this Court unanimously reaffirmed that implied exemptions "can be justified only by a convincing showing of clear repugnancy" between the antitrust laws and the other law, and that exemptions "are especially disfavored where the antitrust implications of a business decision have not been considered by a governmental entity." *National Gerimedical Hospital & Gerontology Center* v. *Blue Cross of Kansas City,* No. 80-802, at 10, 12 (June 15, 1981). The Brief in Opposition does not even try to justify the decision below on the basis of the standards reconfirmed in *National Gerimedical.* Indeed, the Respondent is able to urge only one reason for denying certiorari in this case: Xerox contends that the questions presented do not "offer this Court the opportunity to settle any significant recurring issue under the Sherman Act or the Clayton Act." (Br. Opp. 15). That proposition is manifestly untrue.

I. THIS CASE PRESENTS IMPORTANT QUESTIONS OF BROAD APPLICABILITY

To argue that the facts of this case are "unique" (Br. Opp. 24) is to prove nothing. The facts in every case are unique. The question is not whether these identical facts will recur, but whether the legal principles announced in the decision below will have broad applicability. The answer to that question is "Yes."

With respect to Question 1 presented by the Petition, Xerox urges that the court of appeals' decision was limited to the facts of this case. (Br. Opp. 14). But, in describing the decision below, Xerox recognizes that the *only* dispositive fact in that decision is that a relevant market had not emerged at the time the 1956 Agreement was made. (Br. Opp. 11-12). Under the decision below, therefore, *all* purchases of patents prior to the emergence of a relevant market are exempt from the antitrust laws. That holding is in no way "limited" to the facts of this case.[2]

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[2] *Cf. National Gerimedical Hospital & Gerontology Center* v. *Blue Cross of Kansas City,* No. 80-802 (1981) (certiorari granted to review an implied

It is tautological that, for *every* discovery that creates a new market, the relevant market created by the invention does not exist when the discovery is made. With every discovery that creates a new market, there is a period of engineering or mechanical development, design, product introduction and initial sales occurring well before the new relevant market comes into being.[3] The decision below eliminates antitrust scrutiny for every patent purchase during that entire period. To say that an antitrust exemption for patent purchases where the market has not yet emerged is a non-recurring issue is to deny that important new discoveries will be made.[4]

Xerox does not even suggest that Question 2 presented by the Petition is a question that will not recur, and any such suggestion would be untenable. Nor does Xerox suggest that the court of appeals' unsupported holding that the *duPont* rule does not apply to patent purchases is in any way dependent on the facts of this case. The validity of the court of appeals' holding in this regard is indisputably an issue of broad applicability.

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antitrust exemption, despite unique facts that are unlikely to recur, because of the importance of the broad legal principle involved).

[3] Accordingly, that convenience office copiers and plain paper copiers did not become relevant markets until after January 1964 is not unusual. Moreover, sales of convenience office copiers, which were substantial in 1956, surpassed $175,000,000 in 1958 and exceeded $1 billion from 1960 to 1963. In the 1960-1963 period, sales of plain paper copiers alone were $225,000,000. (Petition 4 n.4; E 2664, 2816-17).

[4] In urging that the facts of this case are unlikely to recur, Xerox also relies on the fact that it purchased the patents from Battelle, a nonprofit institution. This fact does not render Question 1 non-recurring because the court of appeals' exemption is not dependent on the status of the patent seller. (*See also* note 8, *infra*). Moreover, the great majority of the basic research in this country is performed by universities and other nonprofit institutions like Battelle, which conducted an estimated 69.2 percent of the basic research in 1980. *See* NATIONAL SCIENCE FOUNDATION, NATIONAL PATTERNS OF SCIENCE AND TECHNOLOGY RESOURCES 14 (1980). At some stage, the product of that research is transferred to commercial entities, and an increasing number of nonprofit institutions are entering into exclusive arrangements with commercial firms. *See* Biddle, *A Patent on Knowledge,* HARPER'S 22-26 (July 1981); DEPARTMENT OF JUSTICE, ANTITRUST GUIDE CONCERNING RESEARCH JOINT VENTURES App. B, at 6-7 (1980) (discussed in Petition 18 n.19).

The issues involved here are not only likely to recur; they will recur in a context of great national importance. Perhaps the single most important area of our economy today is the development of new technologies, products and services. Competition in these areas is crucial to innovation and economic growth. Yet the decision below allows competition to be precluded in the development and exploitation of new technologies, and in the production and distribution of new products and services. Those determinations present recurring issues of special importance.[5]

The issues raised by the court of appeals' decision go to the heart of the relationship between the antitrust laws and the patent laws, raising significant questions as to the continued vitality of this Court's opinions accommodating the antitrust and patent laws from *Standard Sanitary Mfg. Co.* v. *United States,* 226 U.S. 20, 49 (1912), onward. Those issues should be reviewed by this Court.[6]

II. THE EXEMPTIONS CREATED BY THE COURT OF APPEALS CANNOT BE JUSTIFIED

Xerox's brief fails to justify the exemptions created by the decision below in terms of the applicable criteria referred to in the Petition and this Court's recent decision in *National Gerimedical Hospital & Gerontology Center* v. *Blue Cross of Kansas City,* No. 80-802, at 9-10 (1981). Xerox just asserts that an exemption for patent purchases made prior to the emergence of a relevant market is the "only possible accommodation" between the antitrust laws and the patent laws. (Br. Opp.

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[5] Most dominant firms today license their patents. (*See* PA 67a). Under the court of appeals' decision, however, fewer firms will license, and more will seek to acquire exclusive patent rights. The result will be less competition, without any incremental benefit to the policies of the patent laws. (*See* Petition 23-24 & n.26).

[6] In contrast to the decision below that the Rule of Reason does not apply, compare, *e.g., Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.,* 329 U.S. 637 (1947); *Standard Oil Co. (Indiana)* v. *United States,* 283 U.S. 163 (1931); *see also* Petition 14, 17, 20 & n.22.

16-19). Such *ipse dixit* is no more a "convincing showing of clear repugnancy" than was made in *National Gerimedical.* Xerox has no answer to SCM's demonstration that the proper accommodation of the antitrust laws and the patent laws is achieved by applying the Rule of Reason. (Petition 15-18). The Rule of Reason gives effect to the policies underlying *both* laws. An exemption is no "accommodation" at all.[7]

Xerox also mischaracterizes the meaning of the Rule of Reason in trying to justify the court of appeals' exemptions. Xerox incorrectly argues that the Rule of Reason would invalidate acquisitions of patents even where "the acquisition does nothing more than transfer a legal monopoly from one person to another without augmenting its economic force." (Br. Opp. 18). To the contrary, such an acquisition would be upheld under the Rule of Reason because it would have no adverse effect on competitive conditions. *See National Society of Professional Engineers* v. *United States,* 435 U.S. 679, 688-92 (1978). In contrast, the 1956 Agreement at issue here had a substantial effect on competition. By purchasing all of Battelle's patents and know-how and eliminating Battelle's power to compel sublicensing—a power the jury found Battelle would have exercised by granting licenses to SCM and others by

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[7] Xerox contends that it is a "fundamental misconception" to say that patents confer no immunity from the antitrust laws. (Br. Opp. 16). But Xerox cites no case holding that patent holders are immune, and this Court's decisions establish the contrary. *E.g., International Salt Co.* v. *United States,* 332 U.S. 392 (1947). None of the cases on which Xerox relies provides any support for an exemption for patent purchases prior to the emergence of a relevant market. Whatever relevance the dicta in *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.,* 382 U.S. 172 (1965), and *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Machinery Co.,* 324 U.S. 806 (1945), may have with regard to a monopoly achieved by an inventor, those cases are not applicable to the exemptions created by the court of appeals here. Nor does *United States* v. *Aluminum Co. of America,* 148 F. 2d 416 (2d Cir. 1945), support Xerox's position. The *Alcoa* court was never asked to pass on the legality of the first Alcoa patent acquisition; and as to the second, the court's disposition made it unnecessary to overturn the trial court's factual determination that it was reasonable because it avoided a patent deadlock. *See United States* v. *Aluminum Co. of America,* Eq. No. 85-73, Findings of Fact Nos. 32-36 (S.D.N.Y., filed July 14, 1942).

1969—Xerox changed a competitive future market into a monopolized one.[8]

Xerox also urges that application of the Rule of Reason would discourage commercial success by invalidating any exclusive license that eventually confers substantial market power. (Br. Opp. 18-20). Again, Xerox misrepresents the Rule of Reason. The Rule of Reason does not penalize commercial success; it encourages success by allowing the patent purchaser whatever exclusivity is reasonably necessary to induce commercial development. Nor does the Rule of Reason limit commercial success to the inventor. Commercial success by investors generally is achieved without attaining monopoly power. Even where monopoly power is eventually achieved by an investor, that power may not have been reasonably foreseeable at the time of the acquisition and may be found to have resulted, not from the acquisition, but from the investor's superior skill. *Cf. United States* v. *Grinnell Corp.*, 384 U.S. 563, 570-71 (1966). And even where monopoly power is foreseeable when the patent purchase is made, there may be no violation because the effort required to achieve commercial success might be such that exclusivity would be a reasonably necessary inducement.[9]

Beyond citing III P. AREEDA & D. TURNER, ANTITRUST LAW ¶ 819 (1978)—the sole citation in the court of appeals' opinion on this point as well (PA 28a)—Xerox offers no economic, legal or factual authority for exempting patent purchases made prior to the emergence of a relevant market.[10]

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[8] Throughout its brief, Xerox refers to Battelle as a "non-competitor" in an apparent effort to imply that the 1956 Agreement had no effect on competition. (*E.g.*, Br. Opp. 18 & n.32). Xerox ignores the fact Battelle was a source of potential competition—competition which the 1956 Agreement eliminated. (*See* Petition 19 n.20).

[9] For example, the cost of testing and marketing a pharmaceutical might be so substantial in comparison to the available market that an exclusive license would be reasonably necessary. The exclusive license would have a substantial procompetitive effect—enabling the drug to be marketed—that would outweigh any adverse effect on competition. (*See* Petition 18 n.19).

[10] Areeda & Turner cite no authority for their assertion. Yet Professor Turner had previously concluded that exclusive patent licenses—even prior to commercialization—should only be allowed "for a reasonable period of time

Nor does Xerox's analysis explain how it can be proper to ignore the impact of such an exemption on potential competition. (*See* Petition 19-22).[11]

Finally, Xerox offers no justification for the court of appeals' exemption of patent purchases from the *duPont* rule. Xerox has no answer to the argument (Petition 25) that an exemption from *duPont* can allow patent purchasers to maintain monopoly power, as here, indefinitely. In contrast to the monopoly that may be dissipated by competition from new entries, the monopoly based on patents can be impregnable. The decision below allows invulnerable monopolies, not based on any superior efficiency, to be maintained into the distant future.

III. XEROX'S EFFORTS TO REARGUE THE FACTS SHOULD BE DISREGARDED

In an effort to divert the Court's attention from the real issues, Xerox presents a distorted version of the facts, a version the jury rejected. Neither the district court nor the court of appeals overturned *any* of the jury's factual findings, and Xerox's efforts to reargue the facts should therefore be disregarded. A few examples follow.

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on a showing that exclusivity was an essential prerequisite to any exploitation at all." Turner, *The Patent System and Competitive Policy*, 44 N.Y.U. L. Rev. 450, 462 (1969). Indeed, Professor Turner stated that it was "*clear* that the ordinary application of section 7 principles would have a relatively minimal impact on realizable rewards to patent holders." *Id.* at 461 (emphasis added). *See also* C. Kaysen & D. Turner, Antitrust Policy 178-79 (1959).

[11] Xerox argues that the "acquisition of any asset—a patent or anything else" prior to the emergence of a relevant market is per se lawful under the antitrust laws. (Br. Opp. 19). Xerox cites nothing in support of this proposition, and the precedent is to the contrary. In *United States* v. *E.I. duPont de Nemours & Co.*, 353 U.S. 586 (1957), the product which duPont sold General Motors in the auto finish market, Duco, was not invented until years after the stock acquisition involved. And there was no evidence of any separate relevant market for automobile finishes when the acquisition was made. *Id.* at 593-96, 631-34; *see also* 126 F. Supp. 235, 288-93 (N.D. Ill. 1954).

1. In this Court, Xerox contends—for the first time in this litigation—that SCM was excluded, not only by the patents Xerox purchased from Battelle, but by Xerox's internally-generated patents. (Br. Opp. i, 1, 7-8, 23). The record is to the contrary. At Xerox's urging, the jury specifically found that, prior to March 1969, it was impossible to make a plain paper copier without at least one of the patents—the "corona charging" patent—which Xerox had purchased from Battelle. (PA 117a). Other purchased patents effectively insulated Xerox from all competition even after the corona charging patent expired. (*See* Petition 13 n.13). Xerox did procure patents on its own, but the important patents were those of Carlson, Battelle and Horizons. In 1966, for example, there were seven patents that dominated Xerox's copiers; *none* resulted from research done by Xerox. (A 827-31; *see also* A 815-26).[12]

Xerox contributed no breakthroughs to the development of xerography. Indeed, Xerox conceded that it conducted no significant basic and fundamental research until after the introduction of the first plain paper copier in 1960. (A 893). As its own witness acknowledged, Xerox's contribution was simply a matter of engineering—which "hundreds of companies" had the talent to do. (A 2969). The jury was entirely justified in rejecting Xerox's contention that its monopoly was the result of any Xerox superior skill. (Petition 21 n.23). Xerox's effort to reargue that point here is unavailing.

2. Xerox's reference to IBM's decision not to join with Xerox in marketing the 914 and 813 (Br. Opp. 6-7, 21) is a transparent effort to reargue the jury's finding that it was reasonably foreseeable that the 1956 Agreement would give

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[12] Xerox never attempted to prove at trial that SCM could not have competed effectively without licenses on Xerox's internal inventions. Moreover, even if Xerox had done so, it would make no difference. Under Xerox's 1948 and 1951 agreements with Battelle, Xerox was required to assign to Battelle any xerographic patents it might obtain. Had there been no 1956 Agreement, Battelle would have retained the power to compel sublicensing of those patents, in addition to its own. (Petition 3; E 496-98, 504).

Xerox a monopoly—a finding which the court of appeals specifically upheld (PA 30a).[13]

3. Xerox's argument that Battelle would not have compelled sublicensing to SCM (and others) by 1969 in the absence of the 1956 Agreement (Br. Opp. 21-22) is an especially egregious effort to reargue the facts on which Xerox lost below. The jury specifically found otherwise (PA 123a); the jury's determination was based on clearly sufficient evidence (*see* SCM's Reply Brief below, at 45-53); and the court of appeals declined Xerox's invitation to overturn that finding. For purposes of review in this Court, the jury's demonstrably correct finding must be taken as established.[14]

4. Xerox disputes SCM's statement (Petition 13 & n.13) that, were it not for the FTC decree, Xerox would still have a complete monopoly today, forty-one years after the first xerographic patent issued. Xerox's argument is that, prior to the FTC decree, a number of plain paper copiers were marketed by other companies. (Br. Opp. 7 n.11). What Xerox does not

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[13] Xerox's argument is not only contrary to the decision below; it ignores the pertinent facts. Xerox's own documents confirm that, prior to IBM's decision, Xerox's top managers had unanimously recommended that Xerox decline IBM's offer to work together in manufacturing and marketing the 914 and 813 because of the enormous profits they realized would be derived from exploiting xerography *alone*. Xerox's managers predicted making "record-breaking history," concluding that it would be "easy for [Xerox] to move beyond the one hundred million dollar sales bracket and up into the five hundred million dollar bracket" (E 2062, 2104; *see also* A 903; E 680, 1679-82, 2081, 2090, 2092). After learning of IBM's decision, Xerox was in no way discouraged. Its president correctly and "confident[ly]" stated that Xerox's new copiers would "substantially change the volume and income of the company . . . within three years" (E 2757-59; SA 506-07).

[14] Also unavailing is Xerox's reargument of its so-called cash-flow motivation for the 1956 Agreement. (Br. Opp. 6, 20). Any favorable cash-flow effect from the agreement could as easily have been accomplished—without adversely affecting competition—by paying royalties in stock rather than cash or by a sale with Battelle retaining control over sublicensing. Moreover, research and development expenditures notwithstanding, Xerox "was not draining itself of resources. Far from it. The company was paying its shareholders regular dividends." (E 1076). During the 1955-1959 period, those dividends, which ranged between 34 percent and 49 percent of net after-tax income, totalled $3,088,665. (E 2842).

point out is that every one of those machines infringed a Xerox-owned patent. (E 2677, 3339-40). As the district court noted, "[a]ll [new entrants] were sued by Xerox for patent infringement" (PA 58a) in an effort to remove each company from the market.

In short, the relevant facts are those found by the jury and set forth in the Petition. Xerox wilfully acquired and maintained a persistent monopoly in a multi-billion dollar nationwide industry. It restricted production, controlled prices and excluded competition. The court of appeals sanctioned Xerox's conduct, not by setting aside any of the jury's findings of fact, but by creating broad exemptions from the antitrust laws. Those exemptions should be reviewed by this Court.

Respectfully submitted,

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No. 80-2092

In the Supreme Court of the United States

OCTOBER TERM, 1981

SCM CORPORATION, PETITIONER

v.

XEROX CORPORATION

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTIONS PRESENTED

1. Whether a party's unilateral refusal to license patents which give it an economic monopoly violates Section 1 or 2 of the Sherman Act or Section 7 of the Clayton Act solely because the patents were acquired rather than the product of the party's invention, when the acquiring firm lacked market power at the time of the acquisition.

2. Whether a patent acquisition, lawful when made because the acquiring firm lacked any market power, may be held to violate Section 7 of the Clayton Act, or Section 1 or 2 of the Sherman Act, at a later date, if the patents eventually contribute to the acquisition or maintenance of monopoly power.

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SMC CORPORATION, PETITIONER

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is filed in response to the Court's invitation to the Solicitor General to express the views of the United States.

STATEMENT

In 1973, petitioner SCM Corporation sued Xerox Corporation for alleged violations of Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1 and 2, and Section 7 of the Clayton Act, 15 U.S.C. 18. SCM alleged that by 1969 Xerox had willfully acquired monopoly power in and excluded SCM from a relevant product market consisting of plain and coated-paper convenience office copiers and a relevant submarket of plain-paper copiers (Pet. App. 13a). SCM sought treble damages and injunctive relief.

The only issues raised in the petition concern the legality of a 1956 agreement that gave Xerox exclusive rights to patents on the process of electrophotography that came to be known as xerography (Pet. 2).

1. The xerography process was invented and patented by Chester Carlson in the 1930's (Pet. App. 4a). After 18 futile attempts to find a commercial enterprise interested in investing in further development, in 1944 Carlson assigned his patents to a nonprofit research organization, Battelle Memorial Institute (*id.* at 5a). Battelle subsequently invented and patented many vital improvements in the xerography process (*ibid.*). As had Carlson, Battelle also experienced difficulty in securing financial support for commercial application of the process—between 1944 and 1947 it was rebuffed by 36 companies, including IBM (*ibid.*). The only company willing to invest in development of the copying process was Xerox (originally known as the Haloid Company). In a series of four agreements with Battelle, Xerox eventually acquired complete title to the "Carlson-Battelle patents" (*id.* at 5a-9a).

The 1956 agreement—the agreement whose antitrust legality is now at issue—transferred title to the four basic Carlson-Battelle patents to Xerox and abrogated Xerox's obligation, contained in prior agreements, to use diligent efforts to secure sublicensees (Pet. App. 8a-9a).[1] The agreement also gave Xerox an exclusive license to additional Carlson-Battelle patents; it provided that Xerox would acquire title to those patents in 1959; and it gave Xerox the right to receive all future xerography patents and

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[1]The first agreement, in 1947, gave Xerox a nonexclusive, nonassignable license to use the Carlson-Battelle patents for equipment making up to twenty copies of a document. In return, Xerox was to pay an 8% royalty to Battelle, to sponsor $25,000 of xerographic research a year at Battelle (which agreed not to do xerographic research for anyone other than Xerox), and to grant back to Battelle royalty-free rights to any xerography patents Xerox developed. In 1948, Xerox's license was made exclusive and the 20-copy limit was removed. Xerox was required, however, to use diligent efforts to sublicense the Carlson-Battelle patents (Pet. App. 5a-9a).

know-how developed by Battelle, so long as Xerox continued to sponsor at least $25,000 of Battelle research annually. In return, Battelle received 55,000 shares of Xerox stock and the right to a percentage of Xerox's 1959-1965 profits (*ibid.*).

In 1960, Xerox brought its first automatic plain paper copier to market (Pet. App. 10a).

2. The case was tried to a jury in the United States District Court for the District of Connecticut from June 1977 through August 1978 (Pet. App. 42a-43a). In special verdicts, the jury found that the relevant product market (convenience office copiers) and submarket (plain-paper copiers) alleged by SCM did not exist in 1964,[2] but that the alleged market and submarket had come into existence by 1969 (Pet. App. 13a, 112a-113a). The jury found that, as of 1964 and 1969, the 1956 Xerox-Battelle agreement violated Section 1 of the Sherman Act and Section 7 of the Clayton Act and that, as of 1969, Xerox had willfully acquired or maintained monopoly power in violation of Section 2 of the Sherman Act (Pet. App. 14a, 113a, 117a-118a, 121a-123a).[3] The jury calculated SCM's damages from this "1969 exclusion" as $11.5 million in lost profits and $25.6 million in lost going concern value (Pet. App. 14a-15a, 125a-126a).[4]

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[2]Because of questions concerning the statute of limitations, SCM's exclusion claims were bifurcated for submission to the jury. Accordingly, the jury returned separate verdicts relating to the 1969 exclusion claim (as to which there were no statute of limitations issues) and to the 1964 exclusion claim (see Pet. App. 13a n.5, 43a-46a).

[3]The jury also found that, as of 1964, SCM lacked the intention, preparedness, and capability to enter the plain-paper copier market (Pet. App. 13a, 115a).

[4]The jury also found that one of Xerox's marketing plans, known as "MUP," violated Section 3 of the Clayton Act, 15 U.S.C. 14, and Section 2 of the Sherman Act, 15 U.S.C. 2, and that MUP had caused SCM $230,874 in damages (Pet. App. 15a). After trial, the district court

On Xerox's motion for judgment n.o.v., the district court entered judgment in December, 1978, dismissing all of SCM's damage claims (Pet. App. 41a-127a). While the court questioned whether SCM had proved an antitrust violation and whether there was sufficient evidence to support the jury's damage verdict, it did not base its dismissal of the damage claims on the absence of violation or damage. Rather, it concluded that Xerox could not be liable for money damages for any injury suffered as a result of the 1956 acquisition or of Xerox's subsequent unilateral refusal to license its patents, without undercutting federal patent policy (Pet. App. 69a-70a, 78a-79a, 95a-99a). The district court's opinion did not reach the issue of equitable relief.[5]

3. The court of appeals affirmed the district court's holding that SCM was not entitled to damages on its 1969

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dismissed this claim and the dismissal was affirmed on appeal (Pet. App. 37a-39a). The marketing plans are not relevant to the issues raised in the petition.

[5]The district court entered judgment for Xerox pursuant to Fed. R. Civ. P. 54(b) on all claims except the 1969 exclusion claim. On that claim, the court indicated that it intended its rejection of the damage aspect of SCM's claim to be final but, "[t]o whatever extent a reviewing court may conclude that the dismissal of SCM's claim for money damages on its 1969 exclusion claim and the dismissal of all its other antitrust claims lack finality, the rulings dismissing such claims on the merits are hereby certified for appeal pursuant to 28 U.S.C. §1292(b)." Pet. App. 111a.

The court of appeals remanded SCM's initial appeal, ordering the district court to clarify "whether the District Court intended to hold that Xerox was 'liable' on the post-1969 claim but that money damages were not available as a remedy, or whether the court merely decided that money damages were not a remedy, without deciding the issue of liability" (Pet. App. 129a-131a). The district court responded that no decision has been made with respect to Xerox's liability; it had determined only that, even if Xerox were liable, SCM could not recover money damages (Pet. App. 133a-141a).

exclusion claim, but it did so because it found no violation of the antitrust laws (Pet. App. 1a-40a).[6]

The court of appeals began by rejecting as inconsistent with the patent laws SCM's contention that monopoly status as such obligates a patent holder to license its patents: "No court has ever held that the antitrust laws require a patent holder to forfeit the exclusionary powers inherent in his patent the instant his patent monopoly affords him monopoly power over a relevant product market" (Pet. App. 20a). At the same time, the court stressed that "[p]atent *acquisitions* are not immune from the antitrust laws" (*id.* at 22a; emphasis in original). Thus it concluded that the only antitrust issue before it was the legality of the patent acquisitions because: "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws" (*id.* at 25a).

In addressing this question the court of appeals held that SCM was not entitled to damages because, as a matter of law, the 1956 agreement was not an antitrust violation.

First, the court held that SCM's Section 2 claim based on the 1956 patent acquisition was foreclosed by the absence of market power at the time of the acquisition (Pet. App. 28a; emphasis partially in original):

> In scrutinizing acquisitions of patents under § 2 of the Sherman Act, the focus should be upon the market power that will be conferred by the patent *in relation to the market position then occupied by the acquiring party*. * * * Therefore, that Xerox acquired the patents

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[6]The court of appeals specifically noted that it was not "passing upon the validity of Judge Newman's theory to preclude antitrust damage liability in all cases where the injury is predicated upon a patent holder's refusal to license" (Pet. App. 25a).

in this case four years prior to the production of the first plain-paper copier and at least eight years prior to the appearance of the relevant product market and submarket over which those patents eventually afforded it monopoly power would seem to dispose entirely of SCM's 1969 exclusion claim under § 2.

The court rejected as inconsistent with the policies of the patent laws SCM's argument that "where the commercial success of a patented invention virtually is guaranteed, no person other than the inventor can hold exclusive rights to the patent, at least where it is foreseeable that the products generated under the patent will create their own relevant product market" (Pet. App. 29a). It also held that, since the patent acquisition itself was lawful, "Xerox's subsequent unilateral refusal to license the Carlson and Battelle patents * * * was permissible under the patent laws and, therefore, did not give rise to any liability under § 2" (*id.* at 30a). In addition to noting the absence of a relevant market at the time of the acquisition, the court deemed it significant that "Xerox contributed in a very substantial way to the development of an automatic plain-paper copier by investing in research and development" and that "the party from whom Xerox purchased the patent under the 1956 agreement was not a potential competitor" (*ibid.*).

Second, the court of appeals held that, as a matter of law, the 1956 agreement did not unreasonably restrain trade in violation of Section 1 at the time it was executed[7] " 'because there was no competition in any convenience-office copier or plain-paper copier embodying the patented inventions' in [1956 or 1959]" (Pet. App. 31a). The court rejected

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[7]The court noted that it was not deciding the reasonableness of Battelle's continuing obligation to assign xerography patents and know-how to Xerox since "SCM offered no evidence at trial that any of the patents Xerox obtained from Battelle after January 2, 1959 caused it any harm" (Pet. App. 32a).

as inconsistent with the patent laws SCM's argument that the 1956 agreement was an unreasonable restraint of trade in that "it gave to Xerox absolute exclusionary power, rather than that amount of power reasonably necessary to induce Xerox to continue its efforts to commercialize xerography" (*ibid.*).

Finally, the court of appeals held that there was no violation of Section 7 of the Clayton Act. The court recognized that a patent is an "asset" the acquisition of which is subject to scrutiny under that Section (Pet. App. 33a). But the court rejected SCM's argument that the prospective nature of Section 7 analysis permitted imposition of antitrust liability based on the jury's finding that the *probable* effect of the 1956 acquisition was to create a monopoly in a product market that did not exist until at least eight years later. Rather, "the speculative aspect of [Section 7] was intended [by Congress] to allow courts to appreciate immediately the potential consequences that a particular acquisition might have upon an *existing* line of commerce. * * * The existing market provides the framework in which the probability and extent of an adverse impact upon competition may be measured" (*id.* at 34a; emphasis in original; citation omitted). Since the relevant market did not exist at the time of the acquisition, Xerox could have had no power in that market. Therefore, the court held, the agreement did not violate Section 7.

In concluding that there was no Section 7 violation, the court of appeals also rejected SCM's argument that this Court's decisions in *United States* v. *E.I. du Pont de Nemours & Co.*, 353 U.S. 586 (1957) ("*du Pont-GM*") and *United States* v. *ITT Continental Baking Co.*, 420 U.S. 223 (1975), allowed the jury to find a Section 7 violation based on the effects of Xerox's continued holding of the patents acquired under the 1956 agreement. Without passing on the scope of Section 7 as interpreted in *du Pont-GM* in other

contexts, the court held that the patent laws preclude a finding that the mere holding of a validly acquired patent may spawn antitrust liability (Pet. App. 35a-36a).

ARGUMENT

The court of appeals' decision does not conflict with any decision of this Court or any other court of appeals. Moreover, the court of appeals adopted and applied the correct legal principles for judging the antitrust legality of Xerox's patent acquisition and reached the correct result on the record before it. Consequently, review by this Court is not warranted.

Based on the jury findings, SCM's claim is limited to the question whether Xerox's unilateral refusal to license its patents may run afoul of the antitrust laws solely because the patents were acquired rather than the product of Xerox's own invention. The court of appeals correctly held that this conduct was not unlawful in light of the long-settled principle that a patentee has no obligation to share his statutory grant of exclusivity. Nor is there any ground for creating an exception to this rule merely because the patent holder acquired his rights by assignment rather than invention. As the patent laws expressly provide, a "patentee, his heirs or assigns" stand in the same position and are accorded identical rights. See 35 U.S.C. 154.

The decision below is further supported by the fact that at the time of the acquisition Xerox possessed no power in any copier market, let alone in the relevant markets which had not yet come into existence. Thus, SCM's claim is that the 1956 agreement, even though lawful when made, should be excepted from the established rule of patent law to create antitrust liability for Xerox's subsequent unilateral, and otherwise lawful, conduct. The court of appeals correctly rejected this claim.

1. The court of appeals held that an asset acquisition by a company having no power in the relevant market at the time of the acquisition does not violate Section 1 or 2 of the Sherman Act or Section 7 of the Clayton Act. This conclusion is consistent with established antitrust law and sound economic analysis, and does not constitute the creation of a special rule for patents.[8] Indeed, the court of appeals emphasized that patent acquisitions are *not* exempt from the antitrust laws (Pet. App. 22a), and its holding was based on general antitrust analysis that would apply to any asset acquisition. Thus, Xerox's lack of power in any relevant market at the time of the acquisition—and not the fact that the acquired assets were patent rights—was the critical factor in the court of appeals' determination that the acquisition was legal.

a. As the court of appeals recognized, a purchase of any asset may be illegal under the antitrust laws if it unreasonably restrains trade (Section 1 of the Sherman Act), if it assists the acquiring company to acquire or maintain monopoly power (Section 2 of the Sherman Act), or if it may substantially lessen competition or tend to create a monopoly (Section 7 of the Clayton Act). Under all of these

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[8]Petitioner's argument that the court has created a new implied exemption from the antitrust laws ignores the essential distinction between a holding that a defendant is not subject to the antitrust laws because of an exemption and a holding that there is no antitrust liability because the plaintiff has failed to prove one or more of the essential elements of its case. The court of appeals properly adopted the latter approach. Thus, petitioner's argument that antitrust exemptions are not to be implied in the absence of a convincing showing of clear repugnancy to some other federal law (Pet. 10-18), while a correct statement of the general legal principle governing implied immunity (*National Gerimedical Hospital & Gerontology Center* v. *Blue Cross of Kansas City*, No. 80-802 (June 15, 1981)), is irrelevant to this case.

statutory provisions, the legality of the challenged acquisition depends in part on the market power of the defendant.[9] When the parties to an agreement are without market power, the purpose and, more importantly, the economic effect, if any, of their agreement can be presumed to be to increase efficiency—thereby promoting consumer welfare—for they cannot eliminate competition between themselves, unduly enhance the value of one of their technologies,[10] or restrict output in any way. See R. Bork, *The Antitrust Paradox* ch. 10 (1978); L. Sullivan, *Antitrust* § 204 (1977).

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[9]See, *e.g.*, *United States* v. *Realty Multi-List, Inc.*, 629 F. 2d 1351, 1372-1374 (5th Cir. 1980) (Section 1); *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, 603 F. 2d 263, 274-275 (2d Cir. 1979), cert. denied, 444 U.S. 1093 (1981) (Section 2); *United States* v. *Philadelphia National Bank*, 374 U.S. 321, 363-366 (1963) (Section 7). See also *Merger Guidelines of Department of Justice*, 1 Trade Reg. Rep. (CCH) para. 4510, at 6882 § 3 (1968).

Unfortunately, the court of appeals' repeated reference to the jury's finding that the product market allegedly monopolized by Xerox did not exist until at least eight years after the acquisition may cause confusion in subsequent cases. The critical factor is not when plain paper copiers developed sufficient superiority to be deemed to constitute a separate market, but whether Xerox had sufficient power in any copier market at the time of the acquisition. Since the evidence does not suggest that Xerox had any market power—much less sufficient power to render the acquisition anticompetitive—the fact that its ownership of the acquired patents later allowed it to achieve and maintain monopoly power should be irrelevant. Conversely, if Xerox had had substantial power in a broad copier market at the time of the acquisition, acquisition of a valuable patent might have violated Section 7 of the Clayton Act and in that event monopoly power later achieved as a result of an illegal acquisition would have violated Section 2 of the Sherman Act.

[10]The objective of the antitrust laws with respect to patent acquisitions is to make certain that the patentee does not gain more from the transfer than the incremental value of its invention over the next best technology. That is the measure of its contribution to society, and the patent and antitrust laws should not be enforced to deprive the patentee of that value. By the same token, patent policy would not be served and antitrust policy would be offended if the patentee were able to acquire

Experts may disagree about how large a market share is sufficient to justify the conclusion that a particular acquisition will be, on balance, anticompetitive, *i.e.*, that the decrease in consumer welfare resulting from restriction of output by the parties is likely to exceed any increase in consumer welfare resulting from increased efficiency. But no output restriction, and therefore no anticompetitive effect, can result from the transfer of an asset when at the time of the transfer neither party has any market power. Thus, since it is not disputed that neither Xerox nor Battelle had power in any relevant market at the time of the acquisition, the court of appeals was correct in holding that the

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greater value than it contributes, *i.e.*, greater than the improvement over the best available substitute, by suppressing rival technology.

To put this principle in a market context, it may be helpful to consider the consequences of an acquisition of a patented technology "superior" to rival technologies. Ordinarily, the value conveyed by the patent is the commercial difference between the "superior" technology and the "second best" technology. This is the value the patent grant is intended to convey. If, however, a company acquires both the "superior" technology and the "second best" technology, the value of the patent is increased: it then becomes the difference between the "superior" technology and the "third best" technology and the acquirer is in a position to suppress one of the rival technologies. It is this incremental value, attributable to the elimination of a competitive alternative, that the patent laws do not entitle such company to capture, and the acquisition of that increment could violate Section 7 or Section 2.

In this case, Xerox did not have any significant technology position (market power) at the time of the acquisition. Consequently, Battelle received a price which reflected only the parties' estimates of the potential commercial value of the patents. Since Xerox possessed no technology position which would be suppressed, the transfer did not add any market power value to the patents transferred. Moreover, as the jury expressly found, Xerox did not obtain patents from the Patent Office primarily to block competitors (Pet. App. 118a). Thus, on the record presented, this is not a case involving suppression of rival technologies through acquisition.

acquisition at issue was not anticompetitive.[11] Indeed, since it appears that the buyer but not the seller had the other

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[11]SCM attempts to avoid this conclusion by characterizing the acquisition as one that eliminated "potential competition." The "potential competitor," however, was not asserted to have been Battelle itself, but some unnamed "others" who, SCM suggests, might have been licensed by Battelle or Xerox if Xerox had not acquired the patents. SCM thus attempts to extend the potential competition theory far beyond its proper bounds. It is necessary, even in a potential competition case, to define the area of competition, to identify the potential competitors, to show why they are (or are perceived as) likely entrants, and to show why independent entry would have improved competition in the market. And even where both parties to the merger or joint venture are potential entrants (*e.g., United States* v. *Penn-Olin Chemical Co.*, 378 U.S. 158 (1964)), the competitive effect is assessed with reference to particular potential entrants and their abilities to promote competition through independent entry. In this case, the jury found that as late as 1964 SCM lacked the intention, preparedness and capability to enter the market (Pet. App. 115a). In addition, SCM's contention that, but for Xerox's acquisition of the patents, other companies would have been licensed is undercut by the fact that prior to the 1956 agreement several requests for licenses were denied (Pet. App. 7a).

Moreover, SCM's claim that potential competition was eliminated by the 1956 acquisition is based on an economic assumption that seems incorrect both as a general rule and on the facts of this case. There is no reason to believe that if Battelle had retained the patents it would not have granted an exclusive license to Xerox rather than granting multiple licenses as SCM contends. Any patent holder (regardless of whether it is the inventor or a subsequent purchaser) unable efficiently to undertake its own development, manufacturing and distribution, has the economic incentive to select the licensing method that it believes will maximize its own profit. And it is the nature of the perceived obstacles to optimal exploitation of the patent that determines whether exclusive or multiple licenses will best serve this objective. For example, if significant additional product development investment remains necessary, a patentee might choose to grant an exclusive license because of concern that the free rider effect otherwise would deter any licensee from making the necessary development investment. Conversely, if the product already is developed to the point of imminent commercial exploitation and needs only a broad distribution system to maximize returns, the patentee might prefer multiple licensing. Under the law, the patent holder has the exclusive right to decide which course to follow.

resources necessary to develop the asset, the likely result of the transfer was increased efficiency.

b. There was no error in the court of appeals' refusal to consider whether any efficiencies resulting from Xerox's acquisition of the patents could have been obtained by a less restrictive agreement, *e.g.*, a nonexclusive license.[12] Indeed, there are at least three reasons why such inquiry was both unnecessary and inappropriate in this case. First, since both parties' lack of market power in 1956 made it impossible for the transfer of patent rights from Battelle to Xerox to impair competition in any way, there was no need to make *the transfer* "less restrictive."

Second, the antitrust laws impose no general obligation to share one's assets with competitors even if it is "reasonably foreseeable" that exclusive ownership will contribute to monopoly power.[13] The fact that a transfer of assets has taken place does not justify an attempt by a court to impose a "least restrictive alternative" test on an otherwise legal *use* of assets, where the transfer itself has no anticompetitive effect and the subsequently attained monopoly power is not attributable to any unlawful practice.

The inherent uncertainties of a "least restrictive alternative" test make it an inappropriate standard under the antitrust laws, particularly when applied retroactively as SCM

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[12]SCM maintains that Xerox could have obtained a *non*exclusive license to the Carlson-Battelle patents or acquired the patents under an agreement obligating it to license others to use them, and that its failure to do so can subject it to antitrust liability under a "Rule of Reason" test (Pet. 17-8).

[13]Although a monopolist abuses its monopoly power if it discriminates against its competitors in another market (*e.g.*, *Eastman Kodak Co.* v. *Southern Photo Materials Co.*, 273 U.S. 359 (1927); *United States* v. *Aluminum Co. of America*, 148 F. 2d 416 (2d Cir. 1945); *Otter Tail Power Co.* v. *United States*, 410 U.S. 366 (1973)); no case has premised antitrust liability on a single party's refusal to share the assets of a lawfully acquired monopoly.

urges here. See *American Motor Inns, Inc.* v. *Holiday Inns, Inc.*, 521 F. 2d 1230, 1249-1250 (3d Cir. 1975);[14] *Newberry* v. *Washington Post Co.*, 438 F. Supp. 470, 474-476 (D.D.C. 1977). While the availability of less restrictive means of achieving a legitimate business goal may be a relevant factor in determining the existence of either anticompetitive intent or effect (see *White Motor Co.* v. *United States*, 372 U.S. 253, 270-272 (1963) (Brennan, J., concurring); *Berkey Photo, Inc.* v. *Eastman Kodak Co.*, *supra*, 603 F. 2d at 303), the existence of such an alternative does not in itself prove that the means selected were either excessive or anticompetitive.

Third, as the court of appeals correctly recognized, the right to exclusive use of a patent for its statutory term and the right to transfer that exclusivity are rights conferred on the patentee and his assigns by the patent laws. 35 U.S.C. 154, 261 and 271; *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135-136 (1969). The test urged by SCM—which would make a patent acquisition illegal if it was foreseeable that the patent would contribute to a future monopoly—would diminish significantly the value of the statutory right to transfer patent exclusivity.[15]

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[14]The Third Circuit discussed the following pitfalls of this test (521 F. 2d at 1249-1250):

> Application of the rigid "no less restrictive alternative" test in cases such as this one would place an undue burden on the ordinary conduct of business. Entrepreneurs * * * would then be made guarantors that the imaginations of lawyers could not conjure up some method of achieving the business purpose in question that would result in a somewhat lesser restriction of trade. And courts would be placed in the position of second-guessing business judgments as to what arrangements would or would not provide "adequate" protection for legitimate commercial interests.

[15]To be sure, the application of Section 7 of the Clayton Act to patent acquisitions limits to some extent the value of a patent holder's right to transfer the patent. See note 10, *supra*. But the diminution is limited because, in our view, the question of antitrust legality can be ascertained

Moreover, it could discourage optimal use of some potentially valuable patents. It would do this by creating an entirely unpredictable risk of substantial antitrust liability that would have to be assumed by anyone who sought exclusive rights in order to obtain a return high enough to compensate for investment in patents that are expensive or risky to develop.

What SCM seeks is, in effect, a broad *implied exception* to the right to exclusive use conferred by the patent laws. This exception would spring into effect—and have retroactive application by creating antitrust liability for past conduct—whenever exclusive rights to a patented process or product contribute to the acquisition or maintenance of monopoly power by anyone other than the original patentee. Petitioner's position unduly denigrates the important role played in the innovative process by those, other than the inventor, who invest their money and energy to bring inventions to practical application, and who promote their

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at the time of transfer, either by relying on the advice of counsel or by obtaining an opinion from government enforcement agencies. The "foreseeability" test urged by petitioner, by contrast, would leave the potential purchaser subject to risk for an indeterminate period and thus more sharply reduce the value of the right to transfer. Moreover, except in highly unusual circumstances, any findings concerning whether the emergence of a particular market and the effect of a particular patent on that market were "foreseeable" many years earlier would necessarily be based largely on speculation.

Where a legally acquired patent is subsequently misused in a manner inimical to the antitrust laws—such as patent-pooling leading to cartelization, which does involve the combination and suppression of technologies—appropriate remedies remain available under Sections 1 and 2 of the Sherman Act. See, *e.g.*, *United States* v. *Singer Manufacturing Co.*, 374 U.S. 174 (1963); *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 593 (1951). Thus, the validity of the acquisition under Section 7 of the Clayton Act provides no continuing immunity in cases of subsequent misuse. In the present case, however, the jury found the acquisition to be the *sole* patent-related conduct on which it based liability.

commercial success, thereby creating the market that is the source of reward to the actual inventor.[16] SCM cites nothing in the language or legislative history of either the Patent Act or the antitrust laws that indicates congressional intent to prohibit the use of a patent monopoly to develop an economic monopoly or to limit the right to exclusive use to the original patentee, as distinguished from subsequent holders. Indeed, the patent law expressly negates such a distinction by providing that the benefit of exclusivity is granted to a "patentee, his heirs or assigns." 35 U.S.C. 154.

Nor is any such limitation on the rights of a subsequent holder created by implication from the antitrust laws. In terms of competitive effect, it makes no difference whether the inventor (which in this case was not Battelle, but Carlson) or a marketing firm unilaterally exercises the monopoly power conferred by the patent laws. SCM found itself in 1969 in precisely the same position it would have been in if the inventor had acted just as Xerox did.[17] Since such conduct by the inventor would have been unassailable under the antitrust laws, SCM suffered no "antitrust injury" resulting from Xerox's unilateral actions. See *Brunswick Corp.* v. *Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 487-489 (1977).

2. The court of appeals correctly concluded that holding and using in an otherwise legal manner a validly acquired

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[16]The court of appeals appropriately pointed out (Pet. App. 23a n.9) that a patent policy that benefits the public is dependent not just on inventive genius, but also on those willing to finance and promote commercial utilization of new products.

[17]Indeed, here the jury found that prior to March 11, 1969, it was not possible to make a commercially reliable xerographic plain-paper copier without infringing one of the original Carlson patents Xerox acquired in 1956 (Pet. App. 80a n.33, 117a).

patent does not violate the antitrust laws.[18] Therefore, as the court recognized, where a patent acquisition itself is lawful, antitrust liability cannot be based *solely* on the fact that the holder of the acquired patents subsequently achieved monopoly power attributable to its exercise of rights to exclusivity granted by the patent statutes.[19]

While the Carlson-Battelle patents obviously were a major factor in Xerox's success, the transfer of the patent rights did not have an anticompetitive effect because it did not increase the exclusionary power conferred by the patent laws. Nor was this power used in a manner that expanded the statutory grant of exclusivity. Moreover, as is evident from the inability of Carlson and Battelle to interest others in the patents, acquisition of the patents did not automatically give Xerox monopoly power. Substantial internal development was required and even if such development

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[18]Contrary to SCM's contention (Pet. 22-25; Reply Br. 7), the court of appeals' decision does not conflict with the result in *du Pont-GM*, *supra*. That was a case in which the anticompetitive danger of the original acquisition of a controlling stock interest in a customer by a supplier was demonstrated by subsequent conduct between the two firms. See 5. P. Areeda & D. Turner, *Antitrust Law* paras. 1205a, c and d (1980). If an acquisition clearly is legal when made, however, to hold it illegal retroactively because of subsequent internal growth or lawful unilateral exercise of patent exclusivity would penalize the very conduct that the antitrust laws were designed to promote.

We do not read the court of appeals' opinion to hold that Xerox would have been immune from antitrust liability if post-acquisition patent-related conduct evidenced the anticompetitive potential of the acquisition at the time of consummation. In this case the jury found no such conduct.

[19]SCM also contends (Pet. 24) that Xerox unreasonably maintained monopoly power by refusing to license its patents to SCM. The court of appeals properly viewed the refusal to license as being within the exclusivity conferred by the patent laws. (This is not to suggest, however, that licensing could not be required if a patent acquisition or subsequent patent-related conduct were illegal.)

results in monopoly power, it is not condemned by the antitrust laws. *United States* v. *Grinnell Corp.*, 384 U.S. 563, 570-571 (1966).

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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No. 80-2092

IN THE

Supreme Court of the United States

OCTOBER TERM, 1981

SCM CORPORATION,

Petitioner,

v.

XEROX CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

PETITIONER'S SUPPLEMENTAL BRIEF IN RESPONSE TO BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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The Government does not deny that the questions presented in this case are important and recurring questions of law. Nor does the Government support Xerox's argument that the decision below turns on the "unique" facts of this case. (Br. Opp. 13). The Government's position is that the court of appeals announced a rule under which *no* acquisition "by a company having no power in the relevant market at the time of the acquisition" can ever violate the antitrust laws (Gov. Br. 9)—a rule of unquestionable importance.[1] If the Government's reading of the decision below is correct, the court of appeals created a sweeping new rule of per se legality that conflicts

[1] The Brief for the United States is referred to as "Gov. Br."; other citations are in the form set forth in Petition 1 n.1.

directly with applicable decisions of this Court. The Government's brief underscores what SCM said in its Petition: the decision in this case will have a broad impact on antitrust law for years to come.

1. The Petition's premise is that the court of appeals erred in holding that acquisitions of patents prior to the emergence of a relevant market are exempt from antitrust scrutiny. The Government concedes that the Petition gives a "correct statement of the general legal principle" (Gov. Br. 9 n.8) governing implied exemptions, but contends that that principle is "irrelevant to this case" (*id.*) because it was "Xerox's lack of power in any relevant market at the time of the acquisition—and not the fact that the acquired assets were patent rights—[that] was the critical factor in the court of appeals' determination that the acquisition was legal." (*Id.* at 9).

SCM continues to believe that this is an exemption case. The court of appeals so understood its decision,[2] and Xerox has defended the decision on this basis. (Br. Opp. 16-18). As discussed in the Petition, the court of appeals failed to apply the controlling decisions of this Court on implied exemptions. (Petition 13-22). The Government does not contend otherwise. But it is unnecessary here to add to the discussion of this subject in the Petition, because the case, as the Government has recast it, presents issues of even greater importance and applicability than those discussed in the Petition.[3]

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[2] See, e.g., PA 30a ("the policies of the patent laws preclude the imposition of antitrust liability"); PA 36a ("[w]hatever the meaning that may be ascribed to § 7 in other contexts, the patent laws circumscribe the scope of the provision here"); see also, e.g., PA 17a, 32a, 35a.

[3] Under either reading of the opinion, the court of appeals' decision would have allowed the creation of impregnable monopolies in the numerous industries where alternative technologies were available prior to the time the relevant market emerged, including, for example, radio, television, photo typesetting and lasers. *See* J. Jewkes, D. Sawers & R. Stillerman, *The Sources of Invention* 286-89, 307-09, 332-34, 345-47 (2d ed. 1969); *A Laser Patent that Upsets the Industry,* Business Week 122 (Oct. 24, 1977). The court of appeals' decision will affirmatively encourage acquisitions suppressing such alternative technologies in the important new industries of the future, such as genetic engineering, microprocessors and electronics, to name but a few examples.

If the Government's reading of the decision below is correct, it is per se legal for a party without present market power to acquire any asset, even if there is a market in existence and even if the acquisition is certain to result in a monopoly.[4] The principle the Government finds in the court of appeals' opinion is one of great scope. It could, for example, abolish the potential competition doctrine entirely (see pp. 4-5, *infra*), for in all potential competition cases at least one of the firms involved lacks market power at the time the acquisition is made.[5] Thus, whether the Court accepts SCM's reading of the decision or the Government's, the case merits plenary review.

2. The Government's argument that the court of appeals' decision was correct is based on purely theoretical assumptions that are contradicted by the facts of record in this case. Application of that theory forecloses Rule of Reason scrutiny and represents a significant departure from the applicable decisions of this Court.

a. The Government's broad rule of per se legality—that "an asset acquisition by a company having no power in the relevant market at the time of the acquisition" can never violate the antitrust laws (Gov. Br. 9; see *id.* at 10-12)—is premised on the purely theoretical assertion that "no output restriction, and therefore no anticompetitive effect, can result from the transfer of an asset when at the time of the transfer neither party has any market power." (*Id.* at 11; see *id.* at 13 (anticompetitive effect "impossible")). This is certainly not the case in which to formulate such a per se rule. As this Court has held repeatedly, "[i]t is only after considerable experience" with a practice that a per se rule may be framed. *E.g.*, *Broadcast Music, Inc.* v. *Columbia Broadcasting System*, 441 U.S. 1, 9-10 (1979); *United States* v. *Topco Associates*, 405 U.S. 596, 607-08 (1972); *White Motor Co.* v. *United States*,

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[4] The Government acknowledges that the court of appeals erred in focusing on the lack of a "relevant market" in 1956, and that the court's decision "may cause confusion in subsequent cases." (Gov. Br. 10 n.9).

[5] The Government's rule also appears to make all vertical mergers lawful per se.

372 U.S. 253, 263 (1963).[6] Yet the Government endorses this per se rule, not only in the absence of "considerable experience," but in a case where the record and jury findings demonstrate that the premise for the rule is incorrect. This case demonstrates just how the ultimate anticompetitive effect—the creation of a persistent, substantial economic monopoly—can result from an acquisition made at a time when the parties lack present market power.

b. The Government cites no case holding that the defendant's lack of market power at the time of the acquisition is dispositive, and there is no such case. The cases the Government cites stand only for the correct proposition that the legality of an acquisition "depends *in part* on the market power of the defendant." (Gov. Br. 10 & n.9 (emphasis added)). None of the cases supports the broad rule of per se legality the Government contends the court of appeals adopted here.[7]

This Court's potential competition decisions are directly contrary to the Government's position. In *United States* v. *Penn-Olin Chemical Co.*, 378 U.S. 158, 173-76 (1964), for example, the Court held that the creation of a joint venture can violate Section 7 of the Clayton Act even if *neither* party has any market power prior to the time the joint venture is formed. And the Court has frequently held that the acquiring firm's lack of power in the market prior to the acquisition is not

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[6] As these decisions hold, in the absence of such "considerable experience," a court should apply the Rule of Reason to the practice and assess its impact on competition after a trial. SCM's position is that the Rule of Reason is applicable here. (Petition 16-18). The Government's response to SCM's Rule of Reason argument mischaracterizes it. The Government contends, for example, that SCM is urging a "least restrictive alternative" test and that such a test is inappropriate. (Gov. Br. 13-14 & n.14). In fact, SCM contends (Petition 17-18) that the applicable standard is the "reasonably necessary" test—the *same* test that was held appropriate in each of the cases cited by the Government. *E.g.*, *American Motor Inns, Inc.* v. *Holiday Inns, Inc.*, 521 F.2d 1230, 1249 (3d Cir. 1975); *Newberry* v. *Washington Post Co.*, 438 F. Supp. 470, 475 (D.D.C. 1977).

[7] The Government's view is also contrary to the Department of Justice *Antitrust Guide Concerning Research Joint Ventures* (1980), in which present market power is regarded as only one of several factors, and to the business review letters from the Antitrust Division to the Salk Institute for Biological Studies in 1975. (See Petition 18 n.19).

determinative. *United States* v. *Phillips Petroleum Co.*, 367 F. Supp. 1226 (C.D. Cal. 1973), *aff'd*, 418 U.S. 906 (1974); *United States* v. *Marine Bancorporation*, 418 U.S. 602, 623-26 (1974); *United States* v. *Falstaff Brewing Corp.*, 410 U.S. 526 (1973); *FTC* v. *Procter & Gamble Co.*, 386 U.S. 568 (1967). Accordingly, if the Government is correct in its view that Xerox's lack of market power in 1956 was dispositive in the opinion below (Gov. Br. 9), the court of appeals' opinion is in direct conflict with applicable decisions of this Court and should therefore be given plenary review.

c. As this Court's decisions have made clear, the key to decision is not whether an agreement is entered into at a time when the parties lack market power; the key is the effect of the agreement on existing and future competition. *E.g.*, *National Society of Professional Engineers* v. *United States*, 435 U.S. 679, 688-89 (1978). In many cases, an acquisition by a party lacking present market power will be harmless. In some cases, however, as the Government concedes, the acquisition can be quite harmful.[8] And in this case, the harm—the elimination of

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[8] The Government correctly states that it would violate both the Sherman and Clayton Acts if a firm owning a "superior" technology were to acquire the "second best" technology from another firm because such an acquisition would enable the acquiring firm to suppress the second-best technology and thereby capture "the difference between the 'superior' technology and the 'third best' technology" (Gov. Br. 10-11 n.10). That analysis is inconsistent with the Government's assertion that the defendant's lack of market power at the time of the acquisition ends the case. If the acquiring firm's "superior" technology has not been marketed at the time of the acquisition, the acquiring firm's lack of present market power will, under the Government's rule, render the acquisition of a "second best" technology lawful per se.

The Government is wrong when it asserts that "this is not a case involving suppression of rival technologies through acquisition." (*Id.*). A telling example is found in Xerox's suppression of alternative materials for the photoconductor, the heart of the xerographic process. All Xerox copiers used a selenium photoconductor, itself a Battelle invention which Xerox acquired. Xerox also acquired from Battelle a patent covering the use of zinc oxide as a photoconductor, an invention resulting from government-funded research. Xerox refused to license this patent for plain paper copying, and when Litton introduced a plain paper copier with a zinc oxide photoconductor in 1971, Xerox sued Litton for patent infringement. (SCM's brief below, at 36 n.10). Xerox also suppressed the TESI and xeroprinting alternatives to xerography which it acquired from Battelle and the liquid development technology it acquired from Horizons. (Petition 6; A 823, 2772-73, 2799-801).

substantial potential competition—is a matter of fact found by the jury. (PA 114a, 123a). Although the Government contends that it is "impossible" for such an acquisition to have an anticompetitive effect, its only response to the jury's findings misstates the record and substitutes *a priori* theory for record facts to the contrary.

i. The Government's contention that SCM failed to prove the elements of a potential competition case (Gov. Br. 12 n.11) is plainly wrong. SCM did "define the area of competition" (*id.*)—the convenience office copying market and plain paper copying submarket. SCM did "identify the potential competitors" (*id.*); they were not "some unnamed 'others' " (*id.*) but 20 specifically identified firms, including IBM, Kodak, 3M and Savin (SA 317-479). The reasons why those competitors "[we]re (or [we]re perceived as) likely entrants" (Gov. Br. 12 n.11), as well as their prospective performance in the market, were given not only by SCM's expert witnesses, but by Xerox's as well (A 4113-22; E 3064). SCM also showed how "independent entry would have improved competition in the market" (Gov. Br. 12 n.11) by demonstrating, *inter alia,* the increased output, lower prices and greater innovation that would have resulted from competition among those named competitors—competition the 1956 Agreement prevented. (Petition 5-7).[9]

ii. The Government asserts that "[t]here is no reason to believe that if Battelle had retained the patents it would not have granted an exclusive license to Xerox rather than granting multiple licenses." (Gov. Br. 12 n.11). The Government's *a priori* theory that sublicensing would not have occurred is directly contrary to the jury's specific finding that sublicensing would have occurred. (PA 123a). That finding was clearly supported by the evidence (see SCM's Reply Brief below, at 45-53) and withstood Xerox's challenges in both the district court and the court of appeals.

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[9] That independent entry would have improved competition is confirmed by what actually occurred in the market following entry of the FTC decree under which Xerox was required to license its patents. *Xerox Corp.,* 86 F.T.C. 364 (1975).

3. In an argument inconsistent with its earlier statements that the decision below did not "creat[e] a special rule for patents" (Gov. Br. 9), the Government contends that the patent laws preclude any distinction for antitrust purposes between the rights held by a patentee and the rights that a purchasing firm may acquire. (*Id.* at 8, 14, 16). The Government is incorrect.

As the Government and the court of appeals have conceded, patent acquisitions are not immune from the antitrust laws. (*Id.* at 9; PA 22a). Therefore, the fact that the patent laws permit patents to be assigned and provide that an assignee's rights are the same as the patentee's, 35 U.S.C. §§ 154, 261, 271, does not preclude application of the antitrust laws to invalidate patent acquisitions that affect competition adversely. *See, e.g.*, Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 349-52 (1966).[10] The law has been clear for more than 75 years that the mere fact that conduct is *authorized* by a statute does not preclude application of the antitrust laws when the effect of the conduct is to restrain competition. *Northern Securities Co.* v. *United States*, 193 U.S. 197, 345-51 (1904); *see also United States* v. *United States Gypsum Co.*, 333 U.S. 364, 400-01 (1948). In analogous contexts, this Court has held that the antitrust laws may be applied to strike down mergers approved by the Comptroller of the Currency pursuant to the Bank Merger Act, *United States* v. *Philadelphia National Bank*, 374 U.S. 321, 350-55 (1963), and mergers approved by the Federal Power Commission under the Natural Gas Act, *California* v. *FPC*, 369 U.S. 482 (1962); *United States* v. *El Paso Natural Gas Co.*, 376 U.S. 651 (1964).

4. As demonstrated in the Petition, the court of appeals' holding that the legality of an acquisition of patents can only

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[10] "Statutory authorization [for patent assignments] was necessary 'because since patent rights are creatures of statute and not of common law, the transfer of legal title thereto cannot be regulated by the rules of the latter system.'" 76 YALE L.J. at 349 (quoting A. Walker, *Patents* § 274 (1st ed. 1883)). Accordingly, the statutory authorization to assign a patent confers no "general imprimatur of legality. . . ." 76 YALE L.J. at 349.

be determined at the time of the acquisition—not at the time the anticompetitive effects of the acquisition have occurred—is in conflict with applicable decisions of this Court, including *United States* v. *E.I. duPont de Nemours & Co.*, 353 U.S. 586 (1957). (Petition 22-25). The Government has no answer to the argument that the court of appeals' decision allows monopolies of indefinite duration to be established and maintained; it just asserts that the court of appeals was right and that *duPont* is inapplicable to patent acquisitions.[11]

The Government argues that in *duPont*, but not here, the acquisition was found illegal because of post-acquisition conduct "evidenc[ing] the anticompetitive potential of the acquisition" (Gov. Br. 17 n.18). But that is precisely the case here. The 1956 Agreement violated the antitrust laws because its anticompetitive effects were manifested by Xerox's subsequent acquisition of monopoly power and its willful maintenance of that power by its repeated unreasonable refusals to license.[12]

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[11] In a brief filed in December 1979, however, the Government took the position that the *duPont* rule does apply:

> "Without case support or reasoning, SGK [the defendant] also asserts (SGK Br. 31-32) that the exclusive license was irreproachable under the Sherman Act because it commenced when a market for ATAs [the relevant market] was lacking. There is no requirement, however, that an evaluation of the net competitive effects of an agreement be confined to the moment when it was concluded. Indeed, an agreement which initially had a net procompetitive effect may become illegal if the nature of the market or industry has changed so that the original justification no longer fully pertains. For this reason, competitive effects are to be assessed at the time suit is brought. See *United States* v. *duPont*, 353 U.S. at 597; *United States* v. *Jerrold Electronics Corp.*, 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961)."

Brief for the United States at 34, *United States* v. *Studiengesellschaft Kohle*, 1981-2 Trade Cas. ¶ 64,394 (D.C. Cir. December 11, 1981). Although the court of appeals in that case ruled in favor of the defendant, it did not do so on the basis that the lack of a market (or market power) at the time of the license precluded liability; rather, the court held that the Rule of Reason applied and found the license reasonable under the traditional "reasonably necessary" test.

[12] The Government also asserts that "no case has premised antitrust liability on a single party's refusal to share the assets of a lawfully acquired

The Government's assertion that Xerox's monopoly did not result from the acquisition, but from "[s]ubstantial internal development" (Gov. Br. 17-18) is directly contradicted by the jury's findings. Xerox argued to the jury that its monopoly was based on internal development, and the jury was explicitly instructed that a monopoly achieved by one's own superior skill is entirely lawful. (A 4469-71; SA 831). But the jury found that Xerox's monopoly was the result of the acquisitions, not internal development. (PA 113a, 114a-15a, 118a-19a, 121a-23a).

* * *

The questions presented by this case are of unusual importance, as the Government's brief demonstrates. As SCM and Xerox read the court of appeals' decision, the court created, on the basis of "patent policy," an important implied exemption from the antitrust laws. As the Government reads the decision, an even more sweeping rule of per se legality was announced—a rule in conflict with every potential competition case this Court has decided. Under either reading of the opinion, the decision below permits—indeed encourages—the creation of long term monopolies in new technologies and products. The questions presented by the decision are ones of the first magnitude, and the petition for certiorari should therefore be granted.

Respectfully submitted,

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monopoly." (Gov. Br. 13 n.13). The Government is not correct. *See Hecht* v. *Pro-Football, Inc.*, 570 F.2d 982, 992-93 & n.44 (D.C. Cir. 1977), *cert. denied*, 436 U.S. 956 (1978); *see also Lorain Journal Co.* v. *United States*, 342 U.S. 143 (1951).

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